

**DEPARTMENTS OF VETERANS AFFAIRS AND  
HOUSING AND URBAN DEVELOPMENT AND  
INDEPENDENT AGENCIES APPROPRIATIONS  
FOR FISCAL YEAR 2004**

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**THURSDAY, APRIL 10, 2003**

U.S. SENATE,  
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,  
*Washington, DC.*

The subcommittee met at 10:10 a.m., in room SD-138, Dirksen Senate Office Building, Hon. Christopher S. Bond (chairman) presiding.

Present: Senators Bond and Mikulski.

**CORPORATION FOR NATIONAL AND COMMUNITY SERVICE**

**STATEMENT OF LES LENKOWSKY, CEO**

**ACCOMPANIED BY:**

**MICHELLE GUILLERMIN, CHIEF FINANCIAL OFFICER  
J. RUSSELL GEORGE, INSPECTOR GENERAL**

**OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND**

Senator BOND. Good morning. The VA-HUD and Independent Agencies Appropriations Subcommittee will come to order, and we will continue hearings on the fiscal 2004 budget. We will hear from two of the subcommittee's independent agencies, the Corporation for National and Community Service, and the Department of the Treasury's Community Development and Financial Institutions Fund. We will first hear from the Corporation's Chief Executive Officer, Dr. Les Lenkowsky, the Corporation's Chief Financial Officer, Ms. Michelle Guillermin, and the Corporation's Inspector General, Mr. J. Russell George.

I welcome back Dr. Lenkowsky, who made his first appearance before this subcommittee last year, and a warm welcome, Ms. Guillermin and Mr. George, who are making their first appearances. Both Ms. Guillermin and Mr. George joined the Corporation last fall, and I am sure both feel like it has been a baptism by fire. After we hear from our witnesses from the Corporation, the subcommittee will turn to the CDFI.

For fiscal 2004 the administration is requesting a total of \$962,400,000 for CNCS, of which \$957.7 million is for programs under the VA-HUD jurisdiction. The budget request is a \$165.6 million, or 38 percent increase over the fiscal year 2003 enacted level. Further, the Corporation proposes to expand its AmeriCorps program participation from 50-75,000 members.

This year the Corporation is celebrating its tenth anniversary. This is no small feat, given the political and ideological debate about the AmeriCorps program, the long-standing and numerous management problems, and the annual funding battles. Since its inception, the Corporation has been plagued by management prob-

lems due to poor financial management systems and lack of quality staff and managers.

In light of the latest management fiasco over enrolling AmeriCorps members without the necessary budgetary resources, it is truly amazing that the Corporation has survived, but there have been, as I mentioned earlier, mismanagement problems since its inception one decade ago. One could say that it was built on a poor foundation, but despite its occupants' efforts to correct the problem, the foundation continues to crack and sag. I would even go so far as to say the doors are missing locks, the roof is leaking, and the windows are broken. That makes it an interesting challenge.

Despite these problems, the previous and current administration embraced the Corporation and proposed an expansion of the AmeriCorps program. In my opinion, requesting an expansion of the AmeriCorps program right now is like proposing to build an addition to a broken house. While I am not a building engineer, I think most experts would agree that building an addition to a house with a questionable foundation is not a wise judgment. Frankly, it will be difficult for the Corporation to receive a loan to underwrite this Corporation due to its poor credit history, and as the primary funding source for the Corporation I can tell you that I am not yet ready to support additional funds to expand the AmeriCorps program.

Nevertheless, all hope is not lost. The Corporation has hired a very capable and competent CFO. I am impressed with her fiscal management and financial aptitude and believe that her efforts can put the Corporation's management on the right track. I am also pleased with the work of the new IG, who has responded quickly to our requests to audit and investigate problems swirling around the National Service Trust Fund.

Unfortunately, the Corporation needs more help. While Ms. Guillermin has my utmost confidence, it will be difficult for her alone to resolve the long-standing management problems. It is absolutely critical that she have the support not only through staff resources, but through a cultural shift that makes the entire Corporation more sensitive to fiscal responsibility. This is the job of everybody there, and it is not just one person's. For too long, the Corporation has been fixated on public relations and promotion at the expense of management responsibility. I think the time has come to say the Corporation needs a serious paradigm shift.

It is disappointing and sad that problems continue to persist. I support and applaud the President's call to service, and believe that the Corporation can play an important role in improving the lives of many Americans in the communities in which they serve. Further, with increased insecurities and fear of terrorism, there is a huge cry to volunteer. People want to help. During my trips across my State of Missouri I have heard these cries. I have heard people say, what can I do to help?

Well, I think if we harness this in the right fashion, volunteerism in this country can once again reach the heights that it achieved when this country was founded. However, the Corporation must make sure that it is responsive to the American taxpayer, who demands to know what sort of return it is receiving on the investment it is providing to the Corporation.

To date, Congress has appropriated well over \$4 billion to the National Service programs. However, 10 years later the Corporation still cannot tell us how the programs are performing and how much money the programs are costing, and in some instances cannot even accurately count the number of volunteers actually supported.

When the Corporation discovered last fall that the National Trust Fund lacked adequate funds to meet its liabilities due to an over-enrollment of AmeriCorps members in the program, it then found out that this practice has been occurring for the past few years. More recently we learned that last year the Corporation approved more than 20,000 more slots than it had budgeted. Because of the Corporation's inability to count, it had to suspend enrollments last November since it did not have the funds to support the 20,000 it had approved.

In response to the administration's revised request, Congress provided \$100 million in the 2003 Appropriations Act to the Trust Fund to "back-fill" these slots and to cover the cost of its new members in 2003. While I appreciate the Corporation's efforts to address the problems with the Trust, I question the Corporation's response. I was troubled to learn from the IG's testimony that senior management was aware of overenrollments as early as last July. The Corporation did not notify Congress until it realized that the Trust Fund "could be in a precarious position if the continuing resolutions did not end soon". These findings raise a number of questions about the Corporation's response.

Second, I remain puzzled by the Corporation's efforts in holding the appropriate individuals responsible for these programs. While I understand that one individual recently retired, other individuals remain employed. In fact, one particular employee was moved to a senior management position. If this is not rewarding bad behavior, I do not know what it is. I find it frustrating and mind-boggling that the individuals still employed at the Corporation have not had appropriate administrative penalties imposed.

Because of my concerns about the problems with the Trust, I asked the General Accounting Office and the Corporation's Inspector General to conduct an audit and investigation into the Corporation's management and oversight of the Trust Fund. Based on their preliminary findings, both GAO and the IG found problems with the Corporation's internal control and coordination and communication between appropriate staff. In other words, enrollment decisions were done on an ad hoc basis with no oversight.

In addition to the GAO and the IG audits, I asked the GAO to review the legal issues surrounding the over-enrollment of AmeriCorps members in the Trust. Yesterday, I received GAO's legal opinion on the obligation practices, and that opinion states that "the Corporation incurs an obligation for education benefits when it enters into a grant agreement."

Now, this is a significant finding because it raises questions on whether the Corporation complied with the Anti-Deficiency Act. Under that act, an agency may not incur an obligation in excess of the amount available to it in any appropriation. In other words, the Corporation has to ensure that it has adequate funds to cover all of its obligations.

We look forward to the Corporation's response to the GAO findings. I was disappointed that GAO's statement for the record states, "the Corporation established new policies that may improve the overall management of AmeriCorps if the policies are fully implemented. The Corporation has not made policy changes to correct a key factor, how it obligates funds."

The GAO recommendation is critically important in preventing the stress and disappointment that occurred last November when the Corporation had to suspend enrollments of AmeriCorps members. As GAO states, "had the Corporation properly tracked and recorded its obligations in the Trust at the time of the grant award when it approved new enrollments, it likely would not have needed to suspend enrollments."

I understand the Corporation disagrees with the GAO's finding and legal opinion, but let me help eliminate any further debate on the issue. I agree with the GAO, and I will assure that future appropriations bills require the Corporation to comply with GAO's recommendation.

It is unfortunate that AmeriCorps is being hampered by these legal and management questions. I do not want to belabor the problems of the past, but I do expect the current leadership of the Corporation to take the necessary steps to avoid the mistakes.

I now turn to my colleague and Ranking Member, Senator Mikulski, for her statement and comments.

#### STATEMENT OF SENATOR BARBARA A. MIKULSKI

Senator MIKULSKI. Thank you very much, Mr. Chairman. I want to welcome Dr. Lenkowsky, Ms. Guillermin, Mr. George, and their respective teams, and to get right to the heart of the matter, as really the principal founder of National Service I fought long and hard to uphold the principles that our National Service program was founded on over 10 years ago.

These principles were very much old-fashioned American values, to provide qualitative and quantifiable services to local communities while we created the habits of the heart in the next generation who were losing a sense of obligation to their country and a sense of citizenship, and at the same time were facing substantial student loan debts.

The idea behind National Service was to link our values to public policy and to help young Americans with the opportunity to serve their community, help deal with the issues of going to college, and supported these principles when they were not popular, while being mindful of the need for responsible stewardship of the taxpayer's dollar. I also supported President Bush's call to service at this time when the passion for patriotism runs higher in this country than at any time in my adult lifetime, but I cannot support a bureaucracy that violates the law, mismanages taxpayers' dollars, and creates uncertainty for our communities and our volunteers.

I am very proud of what goes on in National Service, all of those wonderful volunteers in AmeriCorps out there every day, helping build community in our country, the National Civilian Community Corps, which has actually responded to compelling needs, almost like SWAT teams around the country, have done an outstanding job.

Learn and Serve America has been outstanding, because it starts at a very young age to create that sense of volunteerism whether you become an AmeriCorps volunteer or not, that you go on and you volunteer regardless of where life takes you. From that standpoint, in the grassroots I think National Service is alive and well, but at headquarters we are deeply troubled about its management and financial situation. Unless we get the house in order at the top, I do worry that we will be unable to take National Service into the new century to meet the new challenges and the new opportunities for our country.

I am so pleased that President Bush has embraced the concept of National Service, and I do want to work with him in a bipartisan way, but again, we could only repeat the management issues that my chairman has stated. I want the Corporation to restore confidence in our communities and nonprofits and to the graduates of National Service programs that the money will be there if they want to be helping our community, that the VA-HUD Subcommittee is on their side. Second, I hope the Corporation can restore the subcommittee and the Congress' confidence that appropriate steps are taken to prevent mismanagement and uncertainty.

I was really troubled when the Corporation revealed that it had enrolled more volunteers than the Corporation had funds to support. Last year, the Corporation budgeted 50,000 volunteers but enrolled 70,000. That was not just a mistake, that was a colossal mistake. This created a significant shortfall in the National Trust which pays the volunteer education awards.

I am concerned that the Corporation actually violated the law. The law requires that for every volunteer enrolled there must be a deposit in the Trust to pay for the volunteer's education award. The concept was to be simple and straightforward and was spelled out in the Corporation's statute. The Corporation's mismanagement of AmeriCorps has jeopardized the principles of the program and concern about its impact on volunteers. We have had to freeze volunteer enrollments, and it creates uncertainty for volunteers waiting for assignment, for communities who need these volunteers, and for the graduates of the Corporation's program concerned about the status of their education award. That is a triple storm from my perspective.

The consequences of the Corporation's mismanagement are grave. When the House and Senate met last year in conference, the House had zero funding for National Service, and the only reason National Service is still alive is because of my advocacy and the cooperation of the chairman. When Clinton was President, he was really outstanding on how we could keep it going. Now Bush is here, and we face the same problems. One of the historic characteristics of National Service is, great volunteers and a collapse at the top. This cannot continue. I could elaborate more on this. I think the chairman has stated it, but we are very concerned.

Then we go to OMB, and they made it worse, by changing the rules on the Trust. The Corporation has always been able to count on both appropriations and interest when calculating the Trust. Now OMB says they can no longer count interest earning. Well, I know we want to eliminate the tax on dividends, but I do think we should be able to count interest earnings in future budgeting.

So we had to again bail out the Corporation with \$64 million. We are foraging here. We forage for National Service to keep it going, so we have got a significant issue here. We need to hear your testimony, Doctor. We think you really understand National Service, but I think we are coming to the end of the line here. We are now truly at a train wreck, and it is going to be very difficult to keep this going, yet at the same time when we have the passion of the people who want to volunteer we want to make use of that. We have a President of the United States who is enthusiastic about it, and we now need to make sure that we get the organization in order to make use of our young people, the President's enthusiasm, and this great wave of patriotism, that it keeps going on for the rest of the century.

Thank you.

Senator BOND. Thank you very much, Senator Mikulski, and Senator Mikulski has long been recognized as the foremost champion, and I do not know whether godmother of AmeriCorps is the appropriate term, but certainly one of the earliest advocates.

But what she said is correct, she and I have kept this alive, and there have been lots of people who want to kill it, and there are lots more who still want to kill it, and with that glum overhang, if you would care to enlighten us with your testimony, we are happy to have you, sir. Thank you.

#### STATEMENT OF LES LENKOWSKY

Dr. LENKOWSKY. Thank you very much, Chairman Bond, Senator Mikulski.

I am pleased to be with you this morning to discuss the President's budget request for fiscal year 2004 for the activities of the Corporation for National and Community Service under the jurisdiction of this subcommittee. Joining me, as you have noted—

Senator BOND. Excuse me, if I may interrupt, I think we have advised you we will accept your full statements for the record, and ask you to keep your testimony to about 7 minutes. Thank you.

Dr. LENKOWSKY. Joining me is our Chief Financial Officer, Michelle Guillermin. I have submitted written testimony that provides detail and justification for the President's request, but before answering your questions I would like to give you a brief report on the Corporation.

For the past few months, as you have already noted, there has been a lot of bad news about us, but I want to tell you some good news. In the budget request before you, President Bush has reaffirmed his confidence in the Corporation's programs and our role in helping Americans respond to his call to service. The amount the President has requested, 38 percent above our current spending level for the programs under the National and Community Service Act, would enable the Corporation to enroll 75,000 AmeriCorps members and engage over 1 million students in our Learn and Serve America program in 2004.

The President's commitment to the passage of the Citizens Service Act, which would reauthorize and put some vitally needed improvements in place in our programs, remains steadfast, as he indicated in his State of the Union message, and also steadfast is the President's commitment to sweeping management reforms.

Already, we have made long strides toward developing a new culture of management at the Corporation with new leaders or, to use your analogy, chief contractors such as our CFO and our Inspector General, J. Russell George, who is here today as well, and there will be more to come, I can assure you of that, new units such as a completely revamped program evaluation team, and new procedures aimed at achieving the highest standards of public accountability and fiscal integrity.

We are determined to make our organization a model of effective, innovative Government. We have a lot more to do, a lot more, but we are pleased to note that as a result of our efforts we have recently received our third consecutive unqualified opinion from our independent auditors.

Last but not least, I am pleased to give you the good news. Thanks to you and your colleagues in the other chamber, the omnibus appropriation bill for 2003 has given the Corporation the funds it needs to resume enrollments in AmeriCorps. With the adoption of the additional measures President Bush last month submitted to Congress, I am confident that AmeriCorps can have a solid and fiscally responsible year of accomplishment working for our communities and contributing to the development of a new culture of citizenship, service, and responsibility in the United States.

Between November and March, the Corporation did not enroll a single member of AmeriCorps, despite the fact that thousands of Americans were eager to start serving and hundreds of organizations were waiting to put them to work meeting the countless needs of our communities. I have explained in letters to you and in my written statement what caused the Corporation to institute an enrollment pause, and am ready to discuss that further this morning, but what I cannot adequately convey is the anguish all of us at the Corporation have felt at taking this drastic but necessary step, and the disappointment and hardship it has caused so many people.

Our Board of Directors, our executive team, our entire staff and our grantees never again want to be in a position of having to say to Americans who wish only to serve their country that we cannot permit them to do so, and we have taken aggressive actions inside the Corporation to do all we possibly can to ensure that we will not have to say that ever again.

The GAO opinion to which you referred, Mr. Chairman, we just received yesterday. We are studying it. As you know, we have a slightly different interpretation from OMB and our statute has some inconsistencies about it. As soon as we can determine the proper legal standard for our obligations in the Trust, I want to assure you that we will live by that and report completely and regularly to this committee.

More than ever before, Americans want to serve in our programs and our Nation's charities want to use them, charities ranging from nationally known ones like Habitat for Humanity, Campfire, and the Sisters of Notre Dame to grassroots community groups known only to those whose lives they have changed.

More than ever before, our fellow citizens need opportunities to serve, citizens like Jesus Santiago, II, who was by the age of 6, he says, an alcoholic, later moved on to using LSD, cocaine, and other

drugs, dropped out of school by 16, and by 17 was jailed for 11 months. Then he found his way to the Ohio Conservation Corps, an AmeriCorps grantee, where, by helping others, he helped himself to become a new person and is now in college studying to become a social worker.

#### PREPARED STATEMENT

Amid all the evil we see in our world we must, as President Bush often reminds us, find ways to do some good, one heart, one soul at a time, as we did with Jesus Santiago. That is why, amid all the bad news you have heard about the Corporation recently, I am pleased to share with you some good news and ask for your continued backing in enabling more good to come.

Thank you very much. That concludes my oral statement, and both Ms. Guillermin and I would be pleased to answer your questions.

[The statement follows:]

#### PREPARED STATEMENT OF LESLIE LENKOWSKY

Mr. Chairman and Members of the committee, thank you for the opportunity to discuss President Bush's fiscal year 2004 budget for the Corporation for National and Community Service. It is my pleasure to be here on behalf of the President, and our Board of Directors under the chairmanship of Stephen Goldsmith.

I would also like to take this opportunity to thank Chairman Bond, Senator Mikulski, and their staff for recommendations with regard to management improvements within the Corporation and their recent efforts in support of the National Service Trust.

As you review this first budget for our second decade, it is altogether fitting that we collectively consider what the Corporation has accomplished, what we have learned, and where we are going. This 2004 budget affirms that we have a great deal to be proud of. But as we have also recently seen, we have had to learn some substantial lessons about how to manage and support a decentralized system of national and community service, and we have a great deal more to do.

The past performance of the Corporation, including recent problems with the National Service Trust, raises appropriate questions regarding the management of the Corporation's national service programs. I am here today to answer your questions about fiscal, programmatic, and management improvements underway at the Corporation, and to discuss the President's 2004 budget request for the Corporation. The work that AmeriCorps members do in communities across the country—along with the efforts of hundreds of thousands of volunteers supported by the Corporation's other programs—makes an important difference in the lives of countless individuals. With our Board of Directors, we are working to strengthen the management of the program so it can continue to support their work.

I would like to highlight some of the management changes we are making, as well as some of the challenges we face in fiscal year 2003. In addition, I will discuss the resources we will need in 2004 to support President Bush's vision of national service programs that will strengthen the vitality of America's many nonprofit organizations, including the tens of thousands of non-profit and community and faith-based organizations that deliver vital services to Americans in need.

#### MANAGEMENT REFORMS

##### *Management and Personnel*

In the past year, the Corporation has made a number of management and personnel changes to improve the effectiveness and accountability of our programs. Senators Bond and Mikulski, and their staff, have generously lent their expertise to the process.

Just over a year ago, we began to establish a new financial management team including Senate confirmed appointees for the posts of Chief Financial Officer and the Inspector General. Today I am pleased to be joined by our new CFO, Michelle Guillermin, and our new Inspector General, J. Russell George. In addition, we have hired new senior AmeriCorps officials, among other additions to our top management team.



The aim of these changes is to strengthen the Corporation's ability to complete high-level programmatic and financial analysis; to ensure that we are able to exercise strong internal controls over our operations; and to be absolutely certain that the resources Congress and the taxpayers entrust to us are used effectively to help meet the Nation's most pressing needs through fostering citizen service.

#### *Tracking Procedures*

The recent challenges concerning the National Service Trust stemmed, in part, from inadequate tracking procedures. Most of the Corporation's grant awards were made with the expectation that the positions would be renewed for 2 additional years unless the grantee performed in an unsatisfactory manner. In the last 3 years, the Corporation planned for an AmeriCorps enrollment of 50,000 positions in the National Service Trust and exceeded targeted enrollments.

By law, AmeriCorps cannot enroll new members unless funds are available in the National Service Trust to cover the costs of their education award. To comply with this requirement, and as a result of the increased enrollments, in November 2002 the Corporation instituted a pause in enrollments until new appropriations could be deposited in the Trust. The pause has since been lifted—an action made possible by your efforts and those of your staff, to pass the fiscal year 2003 Omnibus Appropriations bill which secured funding for the Trust.

As a response to this enrollment problem, the Corporation has instituted a number of reforms around Trust management and accounting procedures. From now on, prior to the Corporation approving AmeriCorps positions, the CFO will certify that sufficient funds are available in the Trust to support the Education Awards that will be earned by members serving in those positions. Moreover, we will insist on more timely reporting of commitments and enrollments by our grantees. The Grants Management Task Force of the Board of Directors, convened last fall by Chairman Goldsmith, is charged with examining the procedures we use to solicit, review, award, and monitor grants in AmeriCorps, Learn and Serve America, and Senior Corps. We look forward to the Task Force's final report, due in May.

At our request and the request of Congress, the CNCS Inspector General is examining the circumstances that led to the enrollment problem and our corrective measures. We are awaiting this report, along with the report of the GAO on these matters that Congress asked for.

Finally, the development of performance measures and measures of financial accountability for both Corporation offices and our grantees will continue to be important in the current and upcoming fiscal years. We will be providing enhanced professional development, training, and technical assistance to ensure that all staff members can fully utilize the programmatic and financial information that will increasingly be available to them.

We are in the first year of implementing a new electronic grants management system, using funding provided specifically for this purpose by the Congress. With development and testing completed, we have begun implementation on a phased basis throughout fiscal year 2003, consistent with our established grant cycles. When fully operational, the Corporation will have an integrated grants management system providing comprehensive financial and program management information for all grants and cooperative agreements. Grantees in all our programs will apply for and receive assistance electronically, greatly reducing current paperwork burdens. The design meets the Grants Financial System Requirements of the Joint Financial Management Improvement Program, and the requirements of the Government Paperwork Elimination Act and the Federal Financial Assistance Management Improvement Act.

#### FISCAL YEAR 2003 APPROPRIATIONS

As the subcommittee is aware, the administration submitted its 2004 budget prior to Congress completing action on the 2003 appropriation. We look forward to continued discussion with you and the committee staff to ensure that Congressional intent is carried out in fiscal year 2003 and to meet the President's objectives for growing and strengthening AmeriCorps in fiscal year 2004.

On Tuesday, March 4, 2003, President Bush sent a letter to Speaker Hastert asking Congress to consider amendments to the 2003 Omnibus Bill concerning AmeriCorps and the National Service Trust. Specifically, this request would provide an additional \$64 million to the National Service Trust to liquidate obligations incurred in previous years. This language was included in the 2003 supplemental appropriation approved by the Senate on April 3.

One area of the 2003 appropriation that remains a concern to the Corporation is language surrounding Innovation, Assistance, and Other Activities. The current Conference Report language earmarks spending of all dollars appropriated. Our in-

tent is to comply with the spirit of the specifications provided in the Conference Report. Further information on this topic is contained in the Operating Plan which has been transmitted to Congress. We have also complied with the Congress' request to provide quarterly enrollment reports and are working with staff to create an effective and regular reporting system.

#### FISCAL YEAR 2004 BUDGET REQUEST

The budget request before this subcommittee for fiscal year 2004 totals \$592.7 million. This is an increase of \$163.7 million above enacted amounts in 2003. The request funds AmeriCorps\*State and National, AmeriCorps\*NCCC, Learn and Serve America, the National Service Trust, program administration and State commissions, Innovation and Assistance programs, and three additional programs: America's Promise, the Points of Light Foundation, and Teach for America.

The Corporation has identified these five budget priorities for fiscal 2004: providing opportunities for 2.5 million citizens to serve their communities and their country; meeting critical community needs in the areas of education, homeland security, public safety, public health, disaster preparedness, the environment and community development; promoting civic engagement and member development; strengthening accountability and effectiveness; and empowering faith-based and grassroots organizations. The Corporation will carry out these priorities through our AmeriCorps, Learn and Serve America and Senior Corps programs.

#### *AmeriCorps*

The President has requested program funding levels that will support as many as 75,000 AmeriCorps members in fiscal year 2004, a 50 percent increase in the number of participating members. The request for transfer authority as referenced in the budget justification, which requires Congressional notification prior to carrying out any such transfer, would ensure that the mix between National Service Trust funding and program funding is adequate to support this level of participation. We anticipate and look forward to continued discussion with the committee on this proposal.

AmeriCorps members provide countless hours of service in schools, health clinics, homeless shelters, wilderness areas, neighborhood centers, and other places where public work needs to be done. They recruit and manage tens of thousands of their fellow Americans to help build homes, tutor children, respond to disasters, enhance homeland security, clean up streets and vacant lots, and feed the hungry. They promote what is best about our country—individuals helping those in need.

AmeriCorps is a collaboration of governor-appointed State commissions and national nonprofits that are largely responsible for determining where members can be most useful. After a sometimes challenging decade, commissions are now operating in all but one State, increasingly meeting financial and administrative standards and playing key roles in new initiatives, such as assisting community and faith-based organizations and enhancing homeland security. AmeriCorps partners include many of the Nation's preeminent nonprofit organizations.

Members have the opportunity to earn an education award to help finance higher education or pay back student loans upon successful completion of service. At present, approximately \$750 million in education awards have been earned by AmeriCorps members. Awards are taxable and are paid directly to the college, university, or lending institution for student loans.

Members serve in full-time, part-time and reduced-part time positions. Slightly more than half of the members serve full-time and receive a very modest living allowance of about \$9,000 per year for 1,700 hours of service. At least 15 percent of the living allowance must be matched in dollars (not in-kind) by the grantee. Part-time members receive a reduced living allowance or none at all.

There are three main components of the AmeriCorps program. Two are funded under the National and Community Service Act under the jurisdiction of this subcommittee: (1) AmeriCorps\*State and National provides grants to States and to national nonprofit organizations to support members in local communities across the country, and (2) AmeriCorps\*National Civilian Community Corps, or "NCCC," a 10-month, full-time residential service program for men and women, ages 18 to 24 years, that combines the best practices of civilian service with the best aspects of military service, including leadership and team building. The third component is funded under the Domestic Volunteer Services Act by the Labor-HHS Appropriations bill: AmeriCorps\*VISTA focuses members' activities on supporting community and faith-based organizations in helping build the self-sufficiency of low-income communities. These members are also eligible for education awards funded through the National Service Trust.

Focusing on performance measurement and evaluation, we will ensure that AmeriCorps programs are accomplishing their objectives and training a new generation of civic leaders. Further, AmeriCorps programs must show they are enabling national and community based programs to develop their own resources and become self-sustaining. The Corporation has changed its restrictions on AmeriCorps member participation in capacity-building and sustainability efforts of their host organizations. We now encourage members to engage in such activities as mobilizing resources and developing community partnerships intended to strengthen communities.

Recruiting, supporting, and managing volunteers are among the most crucial ways AmeriCorps members have helped build the “capacity” of the organizations with which they have worked. Our program directions seek to foster more—and a broader range of—such activities and some of the programs we fund have already begun to meet these capacity building needs.

AmeriCorps has a long tradition of assisting grassroots and faith-based groups. Often relatively small in size, but large in stature in their communities, these organizations are frequently among the most successful in reaching needy people. Their impact is sometimes limited by their organizational and financial capacity—an area in which AmeriCorps members can play a crucial role. Our FACES initiative, or Faith and Communities Engaged in Service, seeks to build on our past efforts in reaching out to faith-based groups, break down barriers small groups face in participating in our programs, and increase their administrative, management, and technological capacity.

In addition to its role in assisting small community and faith based organizations, AmeriCorps\*VISTA has been a leader in initiating asset development and wealth creation programs such as Individual Development Accounts (IDA). More recently, AmeriCorps\*VISTA has dedicated members to entrepreneur education and micro-enterprise initiatives, which help low-income people become self-sufficient by developing their own businesses. In 2002, AmeriCorps\*VISTA launched the Entrepreneur Corps to expand its efforts in this area by allocating an estimated 400 members to assist organizations in developing wealth-creation programs for families and individuals while also developing the assets of the organizations they are placed with through sound technology planning and financial management and development. In fiscal year 2004, AmeriCorps\*VISTA will further develop the Entrepreneur Corps and continue to dedicate substantial resources toward this programming area.

With regard to technology, AmeriCorps\*VISTA will also continue to support an extensive network of sponsoring organizations that are tackling the problems of the digital divide. Members will continue to play a significant role in helping community organizations to assess their technology needs; develop and design technology plans; set up school-based or neighborhood-based computer learning centers; secure resources for hardware and software; and recruit volunteers for a variety of activities including hardware installation, instruction and mentoring, and staffing computer labs.

The experience all AmeriCorps members have when they work with community program sponsors is one of the reasons participation in national and community service can help create a lifelong habit of civic responsibility. We have also learned that reflection and more formal instruction in the role civic activity plays in our system of government are necessary components of the service experience. To help meet this objective, the Corporation is in the process of completing guidance based on pilot efforts to increase members’ knowledge, skills, and behaviors related to citizenship.

#### *AmeriCorps\*State and National*

The President’s 2004 budget for AmeriCorps pursues these new directions and creates additional opportunities for national and community service. Specifically, our fiscal year 2004 budget requests \$313.2 million for AmeriCorps\*State and National Programs. The intent is for these funds to be used by State commissions and to fund local community-based non-profit organizations to support AmeriCorps programs. The budget proposes an increase of \$138 million above 2003 levels in order to support, when combined with the other components of AmeriCorps and the allocation for the National Service Trust, as many as 75,000 members in 2004.

#### *AmeriCorps\*NCCC*

The 2004 budget also requests \$27 million for the AmeriCorps\*National Civilian Community Corps. Under this request, AmeriCorps\*National Civilian Community Corps would operate five campuses, including a new satellite campus and engage an estimated 1,350 members. In last year’s committee language, you requested a report regarding the proposed expansion AmeriCorps\*NCCC. This report has been

drafted and we will be sharing it with members and staff of this committee shortly. Members will complete about 650 projects and invest more than 2.3 million service hours in local communities. Homeland security and disaster response will continue to be a high priority for AmeriCorps\*NCCC. Among their recent projects, NCCC members from the Denver campus are assisting the U.S. Forest Service in searching for debris from the explosion of the Space Shuttle Columbia. The team consists of Forest Service-trained members who normally spend the majority of their service at the Arapahoe National Forest in Colorado. And a team of AmeriCorps NCCC members were recently in the District of Columbia, helping the city recover from record snows.

#### *AmeriCorps Education Award Program*

The AmeriCorps Education Award Program, providing education awards without living allowances, is currently funded from demonstration authority under Subtitle H of the Act. Pending action by Congress, the President's Budget contemplates funding the program within Subtitle C, in order to expand the types of programs and organizations in which AmeriCorps members may serve, while minimizing the cost to the Corporation and the Federal Government. Under subtitle H, the level of support is set by the Corporation.

#### *National Service Trust*

The President's budget requests \$120 million for the National Service Trust. This level of funding—along with transfer authority language referenced in the Corporation's budget justification—would permit the Corporation to enroll as many as 75,000 AmeriCorps members in 2004, cover forbearance costs associated with members holding loans during service, and provide 7,000 Presidential Freedom Scholarships through the Learn and Serve America program.

#### *Learn and Serve America*

Our budget request includes \$43 million to support Learn and Serve America, which operates in our Nation's elementary and secondary schools and institutions of higher education. Over the last decade, the programs funded by the Corporation have committed themselves to developing America's tradition of volunteering by integrating service with school curricula. Among their accomplishments are improving elementary students' school achievement, promoting children's readiness for school, improving the English skills of immigrants, and improving adult literacy and job skills. In 2002, our grants supported 106 elementary and secondary programs and 68 higher education programs with approximately 1.2 million participants including adult faculty and staff.

This year, and in fiscal year 2004, the Learn and Serve America program will focus on helping schools fulfill their primary civic mission: to create informed and thoughtful citizens, able and eager to participate in America's democratic institutions through their lifetime. Studies show that young people's civic knowledge is weak. Though more and more of them participate in community service, fewer and fewer individuals understand the civic or political principles that lie beneath and give meaning to effective community service. Learn and Serve America will seek to address this by encouraging its grant applicants to design age-appropriate learning activities that foster civic knowledge, attitudes, and behavior.

As with AmeriCorps, we will make the expenditure of Federal funds more accountable through the implementation of performance measures for all grantees. Learn and Serve America published guidance in January 2003 to solicit new grant applications with detailed accountability expectations for all programs. Performance measures negotiated with each grantee will become part of the grant award agreement and programs will report on their progress against these measures for the 3-year grant period. Failure to make adequate progress will result in sanctions.

In 2004, we propose to allocate the \$43 million in funding for Learn and Serve America as follows: approximately \$20 million by formula to State education agencies, which make subgrants to local programs; \$6.5 million for school-based programs through a competitive process in which State education agencies, Indian tribes, and multi-State nonprofit organizations are eligible; up to 3 percent, or \$800,000, within the school-based funds to be awarded competitively to Indian tribes and U.S. territories; \$4.8 million for competitive grants to community-based programs serving school-age youth in settings outside of school, awarded competitively to the State Commissions on National and Community Service, as well as to national nonprofit organizations; and \$10.75 million awarded competitively to individual institutions of higher education or consortia.

#### *Innovation, Demonstration, and Other Assistance*

In the area of innovations and demonstrations, the administration is requesting \$26 million for various purposes, including: training and technical assistance, recruitment, Martin Luther King, Jr. Day grants, statutorily-mandated disability grants, unified State plans, and external communications. In addition to supporting these services, the Corporation will continue to work with the White House, through the invaluable umbrella established last year, the USA Freedom Corps, to support the President's Call to Service, his challenge to all Americans to give at least 2 years of service to their communities and country over their lifetimes. We also plan to convene a conference for the new AmeriCorps and Senior Corps homeland security grantees to ensure high quality implementation of homeland security activities across the country. Through our Faith and Communities Engaged in Service (FACES) initiative, we will continue to increase its involvement with faith-based and small community organizations and help to expand the capacity of these innovative groups to meet critical needs in their communities.

With Congressional approval of our request to transfer the AmeriCorps Education Awards program from this category, we will have greater flexibility to carry out the original intent of this funding stream. Through these funds, the Corporation can provide leadership development and training and technical assistance support to grantees and service programs to make sure that we are supporting best practices and that we are training tomorrow's community leaders. The Corporation will also be better able to support research aimed at identifying steps necessary to renew the ethic of civic responsibility in the United States and improve the ability of service programs to address unmet community needs.

#### *Evaluation*

The Corporation conducts or contracts for evaluations of its programs, initiating several studies each year on a range of issues, as mandated by the National and Community Service Act. Other studies are an important part of the Corporation's compliance with the Government Performance and Results Act (GPRA), and in conjunction with our efforts to gauge program performance through the new Program Assessment Rating Tool (PART). In fiscal year 2004, we are requesting \$7 million to support the studies identified in our budget justification and to facilitate the implementation of performance measures for our grantees. These efforts are critical to enhance program performance and are a high priority for both our authorizing and appropriations committees. We believe strongly in the centrality of research and evaluation to the future of national and community service.

In addition, the Corporation's Office of Research and Policy Development is playing an increasingly central role as a resource for other governmental, nonprofit, and philanthropic groups on a wide range of research and evaluation issues related to volunteering and service. For example, it helped initiate a Census Bureau survey of volunteering, which will now be done regularly by the Bureau of Labor Statistics (BLS) and should provide information useful to organizations eager to enlist Americans in service. It is also in the final stages of developing a survey on volunteering among teenagers, a long-time focus of the Corporation's efforts. These activities not only enhance the impact of the resources available to the Corporation, but also contribute to the Corporation's ultimate mission of renewing "the ethic of civic responsibility" in the United States.

#### *Earmarks*

The Corporation's proposed fiscal year 2004 budget includes allocations for three organizations: Teach for America, the Points of Light Foundation, and America's Promise—The Alliance for Youth. The Corporation has had a long relationship with each of these and believes each merits such treatment because of its ability to meet performance goals and deliver effective services. However, as a general rule, consistent with administration policy, the Corporation seeks to limit the use of earmarking funds through the appropriations process.

#### *Program Administration*

Our budget request for fiscal year 2004 includes \$36 million for program administration, of which 40 percent would support State Service Commissions. Our budget materials describe the use of these funds in detail.

#### *Office of the Inspector General*

As a separate request, the President's budget requests \$5 million for the audit and investigative activities of the Office of the Inspector General.

We all value the important work of that office to conduct independent and objective audits and investigations and to prevent and detect fraud, waste, and abuse. In addition to the number of important reviews of program operations conducted by

this office in the past year, the Inspector General has also formed a new unit within his office to facilitate work related to program performance. One example of the kind of work this unit will do on a regular basis is the special examination undertaken earlier this year of the Corporation's innovative "alternative personnel system." The final report, which will be available later this month, will include a number of important recommendations for improvement.

#### LEGISLATIVE REFORMS

In 2002, the administration and Congress began work on a bill to reform and improve the quality of national and community service programs. While we are pursuing many reforms administratively, some require your assistance through legislation. We appreciate, and are encouraged by, the progress this reauthorization bill made during the last session of Congress. We will continue to work with the members and staff of the authorizing committees to complete action this year on the Citizen Service Act of 2003, which the President called on the Congress to pass during his State of the Union Address earlier this year.

Importantly, this legislation will allow us to strengthen our management practices and fulfill our commitment to investing in programs that produce results. The Corporation is already working to ensure that all grantees in our AmeriCorps, Senior Corps, and Learn and Serve America programs have specific objectives and accountability requirements linked to significant service outcomes and program impacts.

In 2004, 2.5 million Americans of all ages will serve and volunteer through the support of the Corporation's programs. To ensure that these programs are effectively meeting the needs of our Nation's communities this year and in years to come, we encourage Congress to pass the Citizen Service Act of 2003.

#### CONCLUSION

Mr. Chairman, this concludes my statement concerning the Corporation's budget request for fiscal year 2004. In preparing this statement—and in all of our operations—we at the Corporation have kept constantly before us the vital importance of the commitment made by our members, their response of the heart to the needs of their Nation and their neighbors.

At the public Board meeting of the Corporation, we had the opportunity to hear from some of those people. One of them was Jesus Santiago II, a young man from Ohio and a member of the Ohio Civilian Conservation Corps. Mr. Santiago is the product of a broken home. By the age of 6, he says, he was an alcoholic. He later moved on to using LSD, cocaine, and other drugs. At 16, he dropped out of school; by 17, he was jailed for 11 months.

During his incarceration, Mr. Santiago learned about the Ohio CCC. He joined when he was released, and it made all the difference in his life. Here's what he told the Board of the Corporation: "While I've been out making changes in communities it has given my life new meaning. I have helped people in two communities recover from tornado damage, worked in parks and forests and regularly participated in recycling drives. I've changed from being a bad kid to one who helps other young people get their lives back on track. I've been promoted twice and now serve as a Corps leader." Mr. Santiago is now attending college, thanks to his AmeriCorps education award. He's in recovery and on the road to a productive life as a social worker so that he can help others do the same.

We hear these kinds of stories from members every day, and they help to inspire and motivate our work. I hope that his story will also inspire this committee to support our efforts to strengthen these national service programs. They are important, and they do make a difference—in communities, in the lives of those served and those who serve, and for our Nation as a whole. They deserve to be run as well as we possibly can. You have my commitment that we will work ever harder to do this, because the public expects us to—and because people like Jesus Santiago need us to.

As challenging as the road ahead of us might look, we should be heartened by the fact that we start from a decade's worth of accomplishments and lessons learned. These should encourage us not only to aim higher, but also to be confident we can succeed. With the continued assistance and oversight of this subcommittee, I am certain that we can accomplish all that we are charged with and appreciate this committee's support and guidance. We are available to address any questions.

Senator BOND. Thank you, Dr. Lenkowsky, and now we turn for comments and a summary of the full written statement from Mr. George.

Welcome, Mr. George.

## STATEMENT OF J. RUSSELL GEORGE

Mr. GEORGE. Thank you, Mr. Chairman, Senator Mikulski. Thank you for inviting me to appear here today. As requested, my oral comments will focus on the issue of the National Service Trust.

The Trust was created to fund education awards and to pay interest that accrues on qualified student loans while an individual is serving as an AmeriCorps member. If a member does not use the award within 7 years, the right to the award is forfeited.

The Corporation's financial statements, which were being audited as part of my office's annual review, indicated that as of September 30, 2002, the Trust's assets exceeded its liabilities by \$1,851,000. An unqualified opinion on the Corporation's financial statements report was issued on February 4, 2003.

Following up on your request, Chairman Bond, my office initiated an investigation into whether the Anti-Deficiency Act was violated. As of today, no evidence of a violation of that Act was found. The audit confirmed, however, that the Corporation had not complied with the Trust Act when it approved, although not enrolled, more AmeriCorps positions and grant awards over the course of fiscal year 2002 than the Trust would have been able to financially support in the future. The Corporation concedes that it did not comply with this requirement.

The number of approved National Service positions for program years 2000, 2001, and 2002 were approximately 59,000, 61,000, and 67,000 respectively, yet we found that the Corporation based its budget estimates for the Trust on anticipated enrollments that ranged from 49,717 to 51,717. The Corporation approved more positions than it budgeted because historically many AmeriCorps members do not complete a term of service and, of those who do, some may not earn a full education award or do not use the education award at all.

The yearly congressional appropriations and investment income combined to create Trust fund surpluses that grew at a rapid rate. By 2000, the surplus in the Trust was at such a level that Congress rescinded \$81 million from amounts in the Trust. In 2001, the amount was still considered to be in excess of its needs, and Congress rescinded an additional \$30 million from the Trust.

During discussions with OMB and congressional staff, Corporation management was informed that the Corporation's budget was going to be reduced. Management decided they could meet the administration's budget reduction by not requesting appropriations for the Trust. Based on model forecasts, they believed that there were sufficient funds in the Trust to cover the estimated liabilities even with no appropriations. This belief led management to request no appropriations for the Trust in the Corporation's fiscal year 2002 budget request.

My investigation found that Trust liability projections were not being made by Trust staff but instead by a senior-level official in the Corporation's executive office. The Trust Director's position description states that the person holding that job is solely responsible for all aspects of Trust operations, yet in practice the Trust Director managed only day-to-day operations. Although Trust staff

were aware of the liability projections, they did not have ownership of this process.

We also found that the computer programs used to monitor the system did not contain any automatic programming to alert the appropriate officials when AmeriCorps member enrollments reached a predetermined level. No safeguards were built in to prevent additional enrollments until reviewed and approved by Corporation staff. Although certain Corporation managers were aware that enrollments were increasing, the reporting and tracking of these enrollments were not timely. This lack of automated alerts and safeguards allowed AmeriCorps enrollees to exceed expectations, which resulted in a freeze on further enrollments.

Some of the reasons for this included the fact that the Corporation did not have effective internal controls to assess the impact of enrollments on the Trust prior to authorizing new National Service positions. In addition, Corporation staff focused exclusively on appropriations made available for AmeriCorps grants, and did not adequately consider the impact of education awards when making grant decisions to support new National Service positions.

And finally, there was a lack of coordination between senior Corporation officials, AmeriCorps, Office of Grants Management, and Trust staffs as to how many new National Service positions could be allocated annually to the programs.

Senators, subsequent interviews with Corporation officials found that most failed to make the connection between increased enrollments and Trust funding levels. One official told my investigators that it did not become an issue until they realized that the fiscal year 2003 continuing resolutions prevented them from budgeting any funds for the Trust, since no appropriations had been requested in the prior year.

The Office of Inspector General determined that the Corporation could generate reports showing numbers of AmeriCorps enrollments for any given time. Further, through interviews with the former Director of the National Service Trust and her staff, we discovered that the Corporation generated other reports showing the financial status of the Trust on a monthly basis. These reports were forwarded to senior Corporation management. However, there was no known reconciliation of the number of AmeriCorps enrollees to future Trust liabilities.

Additionally, quarterly National Service Trust status reports were sent to Congress detailing the Trust's assets, model-calculated liabilities, revenues, expenses, and net position. The quarterly reports to Congress also contained AmeriCorps member enrollment data, but it appears that the Corporation member enrollment data was never reconciled with the Trust status reports.

At this stage of our review, the Office of Inspector General is in a position to make some preliminary recommendations based upon our findings. We recommend that policies and procedures should be revised to ensure that the staffs of the AmeriCorps Program Office, the Office of Grants Management, and the Trust Office are involved in the budgeting process, National Service position approval and amendment process, too.

The Trust Office staff should ensure that funds are available in the Trust to meet the estimated liability to be incurred prior to Na-



tional Service position approval. And finally, reports should be generated on a monthly basis to compare the number of approved National Service positions to the actual members enrolled.

#### PREPARED STATEMENTS

Senior management should review these reports on a timely basis to ensure that enrollments do not exceed the Corporation's estimates, and I would add that automated controls should be implemented to limit approval of additional enrollments to authorized officers in the Grants Management Office and to prevent grantees from enrolling members after the program year enrollment period ends.

Mr. Chairman, Senator Mikulski, this concludes my prepared statement. I would be pleased to answer any questions you might have.

[The statements follow:]

#### PREPARED STATEMENT OF J. RUSSELL GEORGE

Mr. Chairman and members of the subcommittee, thank you for inviting me here today. As you know, President Bush nominated me for the position of Inspector General of the Corporation for National and Community Service in February of 2002, and the Senate honored me by voting to confirm my nomination last July. This is my first appearance before this subcommittee, and I appreciate the opportunity to discuss with you some of the major issues that have come to my attention since assuming my position.

#### ESTABLISHMENT OF EVALUATION SECTION

Before addressing the issue of the National Service Trust, I would like to point out that I am altering the structure of the Office of Inspector General (OIG) to expand its scope and to better enable it to serve its purposes. In that regard, I am in the process of establishing an Evaluation Section, and hope to have it fully operational in the coming months with an assistant inspector general and three evaluators. The mission of the unit will be to review the various functions of the Corporation and to make recommendations for improvement, hopefully before problems occur. It will also assist grantees and other beneficiaries of the Corporation's programs avoid pitfalls through proactive educational initiatives.

#### REVIEW OF THE CORPORATION'S ALTERNATIVE PERSONNEL SYSTEM

When the Corporation was established in 1994, Congress permitted it to set up an "Alternative Personnel System," one that is different from the traditional Title 5 or General Schedule that exists in most Federal agencies.

Following complaints made by Corporation employees to their union, to Congress, the Corporation's Chief Executive Officer, and the Corporation's Chairman of the Board, the OIG engaged management specialists at Deloitte and Touche, LLP, to conduct a study of the system. DeLoitte and Touche was tasked to determine if the Corporation's personnel policies, procedures, and practices are able to accomplish and are achieving the Corporation's need to maintain adequate staffing and to administer in a fair and equitable manner the use of term appointments, performance bonuses, salary increases, and hiring actions under the policies created pursuant to the alternative personnel authority.

Based on this review, a final report will be issued in the coming weeks and it will make recommendations for improvement to the system that I believe will benefit all employees of the Corporation. Some of the recommendations will concern clarifying the roles and the authority of Corporation managers in the system, making appointment and promotions procedures more clear, and ensuring that the budget process identifies the need for adequate funding for salary increases.

#### AUDITS OF STATE COMMISSIONS

Approximately two-thirds of the Corporation's AmeriCorps grant funds go to State commissions, who are appointed by State Governors, who subgrant it to organizations in their States that perform AmeriCorps programs. We have been conducting audits of these commissions since 1999. In March we issued an audit report for the

Indiana State Commission, and we plan to conduct audits of the State commissions in the States of Wisconsin, Ohio, Maine, Pennsylvania, and Connecticut in the coming year. As a result of past audits of State commissions, our auditors have made numerous questioned cost findings of the grantees. These costs were primarily due to inadequate record keeping on their part, and we have worked with commissions and Corporation management to resolve these findings.

We have also completed the annual audit of the Corporation's Financial Statement. KPMG, who completed the work, gave an unqualified opinion on the statements, but noted a reportable condition with respect to the situation that arose concerning the Trust. As I will discuss in greater detail shortly, we intend to review the Corporation's grant management procedures in the coming year.

Other audits that have been completed in the last 6 months include the Points of Light Foundation, Parents as Teachers, Navajo Nation Foster Grandparent Program, and RSVP of Bergen County, New Jersey. Work in progress includes the 2002 fiscal year Management Letter, and audits of congressionally earmarked funds to America's Promise—The Alliance for Youth, and Communities In Schools Inc.

#### NATIONAL SERVICE TRUST AUDIT AND INVESTIGATION

On November 11, 2002, Dr. Les Lenkowsky, the Corporation's Chief Executive Officer (CEO) informed me it had recently come to his attention that in the preceding months the Corporation had approved more AmeriCorps member positions as part of their grant awards to national service programs than the National Service Trust (Trust) could support.

The National and Community Service Trust Act of 1993 established the Trust to fund education awards and to pay interest that accrues on qualified student loans while an individual is serving as an AmeriCorps member. The Trust does not pay member benefits such as living allowances or health benefits, only education awards, interest forbearance, and Presidential scholarships. Education awards are for AmeriCorps members who successfully complete their term of service and request the award. After the award is approved it can be used to pay back the member's student loan, current education expenses or approved school-to-work programs through the member's qualified institution of higher learning defined under a Title IV Program Participation Agreement with the U.S. Department of Education. AmeriCorps members, in accordance with the National and Community Service Trust Act, have 7 years to use their approved award. If a member does not use the award within 7 years, the right to the award is forfeited.

In fiscal year 1994, the first year of the Corporation's operations, Congress appropriated \$93,250,000 for the Trust. For all subsequent years, except fiscal year 2002, Congress has appropriated between \$59,000,000 and \$115,070,000 for the Trust. The Trust receives these funds under a "no year" appropriation, i.e., funds that are available until expended. The funds for the Trust are kept in an account in the U.S. Treasury and are invested in Treasury securities. The National and Community Service Trust Act requires that the Corporation ensure that there will be sufficient funds available in the National Service Trust to pay for education awards.

The CEO informed me that to prevent excessive Trust liability from occurring he had directed that program grantees cease enrolling members for their coming program year until the fiscal situation was resolved. The CEO also informed me that he had earlier reported the situation to this subcommittee. On November 20, 2002, I received a letter from Chairman Bond requesting that my office investigate and audit the Corporation's management and oversight of the National Service Trust. Part of our review included the audit of the Corporation's financial statements being performed at the time by KPMG. I directed the OIG investigative staff to identify persons responsible for the situation, and to determine if the Anti-Deficiency Act had been violated.<sup>1</sup>

#### AUDIT OF THE TRUST

We initially turned to the Corporation's financial statement for the year ending September 30, 2002, to determine whether the grant recipients had enrolled so many AmeriCorps volunteers that the Trust's liabilities had exceeded assets. The Corporation's financial statements indicated that the Trust was still solvent. As of September 30, 2002, the Trust's assets exceeded its liabilities by \$1,851,000. The audit firm, KPMG, working under contract to conduct the financial statement audit,

<sup>1</sup> One of the items requested in Chairman Bond's letter was to identify the Corporation staff responsible for managing, administering, and monitoring AmeriCorps member enrollment and Trust operations. I am not able to address this aspect of the request in my testimony, as this matter is still under review.

concurrent in this judgment. An unqualified opinion on the Corporation's financial statements report was issued by the OIG on February 4, 2003, a copy of which is attached to my testimony.

However, KPMG auditors confirmed that the Corporation had not complied with the National and Community Service Trust Act when it approved, although not enrolled, more AmeriCorps positions in grant awards over the course of fiscal year 2002, than the Trust would have been able to financially support in the future. KPMG characterized this as a reportable condition but did not consider the matter a material weakness.

Section 129(f) of the National Service and Community Trust Act, 42 U.S.C. §12581(f), requires that the Corporation approve National Service positions in its grants to AmeriCorps programs by "taking into consideration funding needs for [education awards] based on completed service." The Corporation concedes that it did not comply with its own authorizing legislation.

The reasons found by the auditors for the Corporation's approval of positions in excess of what the Trust could reasonably support were:

- The Corporation did not have effective internal controls to assess the impact of enrollments on the Trust prior to authorizing new National Service positions.
- Corporation staff focused exclusively on appropriations made available for AmeriCorps grants, and did not adequately consider the impact of education awards when making grant decisions to support new National Service positions.
- There was a lack of coordination between senior Corporation officials, AmeriCorps staff, Office of Grants Management staff, and Trust staff as to how many new National Service positions could be allocated annually to the programs.

KPMG noted that under the grant award process in place during fiscal year 2002, the Corporation published Notices of Funds Availability based on its approved priorities and guidelines and appropriations level. KPMG found that AmeriCorps staff, in consultation with other senior staff, decided the funding level and the numbers of positions to be awarded to each program. These awards were made with regard to funds available for member living allowances and the grantee's administrative costs, but not with regard to education awards that could be funded by the Trust when members completed service. The AmeriCorps staff prepared a certification form that specified the grant budget and the number of positions allocated to that grantee's program.

Based on the certification prepared by the AmeriCorps staff, the staff of the Office of Grants Management issued a Notice of Grant award to the grantee. This document includes the grant number, and specifies the project period, award amount and number of approved National Service positions for the program. Grants management staff sent the number of approved National Service positions to the staff of the Trust. The information was entered into two distinct databases, the System for Programs, Agreements, and National Service Participants (now known as eSPAN),<sup>2</sup> and the Web Based Reporting System (known as WBRs).<sup>3</sup>

The auditors noted that AmeriCorps program officers and grant officers had access to the WBRs database and could approve additional AmeriCorps member enrollments in excess of what had been originally approved in the Notice of Grant Award, contrary to the rule specified in the Program Director's Handbook, which allows approval only by a grants officer. In addition, there were no controls in WBRs to prevent grantees from enrolling members after their program year had officially ended.

The number of approved National Service positions uploaded into eSPAN and WBRs for program years 2000, 2001, and 2002, were approximately 59,000, 61,000, and 67,000 respectively, yet an inquiry by the OIG's investigative staff found that the Corporation based its budget estimates for the Trust on anticipated enrollments in the Trust that ranged from 49,717 to 51,717 for these years. The Corporation, as a matter of practice, previously approved more positions than it budgeted because historically many AmeriCorps members do not complete a term of service, and of those that do complete their term of service, some may not earn a full education award or do not use the education award.

Our investigation has determined that the Corporation successfully suspended enrollments of AmeriCorps volunteers into the National Service Trust before the liabil-

<sup>2</sup>eSPAN is a database used principally by Trust personnel for the tracking and reporting of AmeriCorps members and their education award use. AmeriCorps member's ultimate approval and payment of their education award is initiated from this database.

<sup>3</sup>WBRs is a database established to facilitate program and member data input from the field. Grant recipients are responsible for inputting data for each new AmeriCorps member they enroll.

ities created by new enrollees exceeded the Trust's assets.<sup>4</sup> KPMG noted that the Corporation gives grants to AmeriCorps programs for specific budget periods, and for approved National Service positions documented on the Notice of Grant Award. Once a program receives an award it has 1 year to recruit AmeriCorps members for their particular projects and enroll them into the Trust. The beginning date for a program may start at anytime during the grantee's budget period. Even when the program's beginning date is the last month of the grantee's budget period, the program still has 1 year from that date to enroll all their approved members for that particular program year. This time lag allowed the Corporation to successfully pause enrollments of prospective AmeriCorps members before the Trust became insolvent.

#### INVESTIGATION OF THE TRUST

Following up on Chairman Bond's November 20, 2002, request the OIG initiated an investigation into whether the Anti-Deficiency Act had been violated with regard to the funding of the number of AmeriCorps members enrolled in the Trust. No evidence of a violation of the Anti-Deficiency Act was found. The inquiry confirmed KPMG's findings that conditions existed that contributed to a breakdown in communication and coordination between the Corporation's budget development function, the AmeriCorps Program staff and the Trust staff.

Our inquiry found that in the first years of the Corporation's existence, specifically 1994 and 1995, the Director of the National Service Trust at that time expected no more than 24,000 AmeriCorps members to enroll in the Trust, but this number was no more than a guess as there was no historical data to draw upon. During these first years, the Trust's liability was based on the number of enrollee's multiplied by the actual amount of the education awards.

Toward the end of 1995, it became evident to Corporation officials that actual AmeriCorps enrollment never reached the expected enrollment number and it was clear that not all enrollees were successfully completing their service. The pattern became clearer over subsequent years. For example, from program year 1994 through program year 2000, the actual number of AmeriCorps enrollments ranged from 25,149 in program year 1994 to a high of 52,891 for program year 2000, but the number of AmeriCorps members who actually earned an award ranged from 18,778 in program year 1994 to 36,353 for program year 2000.

Moreover, it later became evident to Corporation officials that many AmeriCorps members, who successfully completed a term of service and earned an education award, never used the award. OIG staff calculates that had the Corporation continued to base the Trust's liability along a straight line computation of one award per one enrolled AmeriCorps member, the Corporation would have had to commit a cumulative amount in excess of over \$1 billion dollars from fiscal year 1994 through fiscal year 2002.

In 1996, based on the experience of these early years, the then National Service Trust director developed a series of formulas to estimate the number of enrollees who would successfully complete their service, when during their enrollment they would complete their service, and when, after completing their service, they would claim their education award. In addition to estimating raw numbers of AmeriCorps members, the formulas also estimated dollar amounts associated with the estimated education awards. These early formulas were also used to forecast estimated future funding requirements for the Trust, and became known as the Service Award Liability Model. The goal of the model was to provide better management of the Trust funds and to provide more realistic liability data for the Corporation's financial statements versus a strict liability of one award per one AmeriCorps member.

Despite the liability forecasts derived from the Service Award Liability Model, the yearly Congressional appropriations and Trust investment combined to create Trust fund surpluses that grew at a rapid rate. By 2000, the surplus in the Trust was at such a level that Congress rescinded \$81 million from amounts in the Trust. In 2001, the surplus in the Trust was still considered to be in excess to the Trust's needs, and Congress rescinded an additional \$30 million from amounts in the Trust.

In 2001, PriceWaterhouseCoopers was engaged to assess the Corporation's model. PriceWaterhouseCoopers found that the model produced reliable estimates and made recommendations for enhancements to it. Some of these enhancements included a fiscal versus program year approach, weighted average outlays to reflect

<sup>4</sup>During the enrollment pause, the Chief Financial Officer's office performed an analysis of the Trust. This analysis assumed that if the Corporation ceased to exist and no new additional appropriations were received, the Trust's assets were sufficient to pay out awards for enrolled members.

changes in program year award amounts, a standardized discount and Treasury rate assumption, a centralized input worksheet, and a quarterly-basis approach versus yearly. The Corporation adopted these changes.

During discussions with the Office of Management and Budget and Congressional staff, in this same year (2001), Corporation management was informed that the Corporation's budget was going to be reduced. In an effort to prevent the perception that the Corporation's budget was going to be cut, Corporation management decided they could meet the administration's budget reduction by not requesting appropriations for the Trust. Corporation management, based on model forecasts, believed that there were sufficient funds in the Trust to cover the estimated liabilities, even with no appropriations. This belief led Corporation management to request no appropriations for the Trust in the Corporation's fiscal year 2002 budget request. In the Fiscal 2002 Budget Estimate and Performance Plan, dated April 2001, page 17, the Corporation stated:

"We have calculated the requirements for the Trust and have determined that no new authority is required in fiscal 2002 for the Trust Fund costs associated with new AmeriCorps members. This determination reflects several changes to policies and estimating procedures when compared to prior year Trust Fund requests, including:

- "The explicit recognition that future interest earnings in the Trust lower the requirements for new authority in the current year's budget request. We have made this change as a result of the review of the estimating model. In the past, the assumption was that future interest earnings would affect budget authority needs in the out years.
  - "A program budget that is based on no growth in the number of AmeriCorps members in 2002.
  - "An assumption that AmeriCorps will remain at 48,000 members beyond 2002.
- "There are sufficient balances in the Trust to cover the estimated education award liability associated with the members supported in the fiscal year 2002 program budget."

In May 2001, Chairman Bond requested that the OIG review the methodology used by the Corporation to determine that no additional Trust appropriations were necessary for fiscal year 2002. The OIG contracted with KPMG to perform this review. KPMG found adequate support for the Corporation's decision to request no additional Trust funding for fiscal year 2002:

"The Corporation's decision not to request additional funding for the Trust Fund for fiscal year 2002 is supported by the documentation and analysis reviewed. It indicates that sufficient Trust Fund assets will be available to fund educational awards, Presidential scholarships, and interest forbearance earned and expected to be paid for all service performed by Members through program year 2002."

KPMG noted that it was likely that Congress would need to appropriate approximately \$75 million in fiscal year 2003 to fund the additional awards for the 2003 program year, assuming Congress elected to continue the AmeriCorps member levels consistent with historical experience over the past several years.

My investigation found that Trust liability projections were not being made by Trust staff, but by a senior-level official in the Corporation's Executive Office. The Trust Director's position description states that the person holding that position is solely responsible for all aspects of Trust operations, yet in actual practice, the Trust Director managed only day-to-day operations. Although Trust staff were aware of the liability projections, they did not have ownership of this process.

We also found that neither the WBRS nor eSPAN systems contained any automatic programming to alert Grants officers, AmeriCorps Program officers or Trust Office staff when AmeriCorps member enrollments reached a predetermined level. No safeguards were built in to prevent additional enrollments until reviewed and approved by Corporation staff. Although certain Corporation managers were aware that enrollments were increasing, the reporting and tracking of these enrollments were not timely. This lack of automated alerts and safeguards allowed AmeriCorps enrollees to exceed expectations, which resulted in a freeze on further enrollments.

In the summer of 2002, Corporation senior staff were aware that actual enrollments of AmeriCorps members in the Trust had exceeded the model forecasts, but it was not until late in the year that Corporation management realized that Trust liabilities could exceed assets. Congress passed a series of continuing resolutions to allow the Corporation and other Federal agencies to re-budget based on the prior year's authorizations. Since the Corporation had not requested or received fiscal year 2002 appropriations for the Trust, they were unable to budget any funds for the Trust from the continuing resolutions.

On July 11, 2002, the senior Corporation manager who had been tracking Trust enrollments sent an e-mail message to the CEO, the CEO's senior aide, the Chief Operating Officer, and the Director of AmeriCorps. This message informed the recipients that AmeriCorps member enrollment had reached 56,500 for program year 2001, that the estimated enrollment could reach 58,000 by year end, and that "down the line" the Corporation would have to be sure the Trust had sufficient funds to handle the increased enrollment.

On August 28, 2002, this official sent another message to the same addressees as his July 11, 2002, e-mail and also included the Director of Research and Policy Development, the Director of the Office of Public Affairs, and the Deputy Chief Financial Officer who at the time was serving as the acting CFO. This message stated that AmeriCorps enrollments had hit 60,000, an all time high and that the Trust budget funding estimates need to be updated "as we go forward."

Subsequent OIG interviews with the Corporation officials who received the messages found that most failed to make the connections between increased enrollments and Trust funding levels. One official stated he responded to the e-mail saying he would be careful about publicizing the good news because readers may question how the Corporation could exceed their target goal and still pay the additional amounts. Another official said that it did not become an issue until they realized that the fiscal year 2003 continuing resolutions prevented them from budgeting any funds for the Trust since no appropriations for the Trust had been requested in the prior year.

We found that during early November the Chief Financial Officer's staff informed her that there might not be enough funds in the Trust to cover future education awards due to the continuing resolutions. Shortly after this, she and other Corporation senior staff reviewed the situation and determined that the Trust's funding could be in a precarious position if the continuing resolutions did not end soon. The next day the CFO notified the CEO of the potential problem.

We determined that the Corporation could generate eSPAN reports showing numbers of AmeriCorps enrollments for any given time. Further, through interviews with the former Director of the National Service Trust and her staff, we discovered that the Corporation generated other reports showing the financial status of the Trust on a monthly basis. These reports were forwarded to senior Corporation management; however, there was no known reconciliation of the number of AmeriCorps enrollees to future Trust liabilities. Additionally, quarterly National Service Trust status/financial reports were sent to Congress detailing the Trust's assets, model calculated liabilities, revenues, expenses, and net position. The quarterly reports to Congress also contained AmeriCorps member enrollment data, but it appears that the AmeriCorps member enrollment data was never reconciled to the Trust status/financial reports.

#### RECOMMENDATIONS

At this stage of our review, the OIG is in a position to make some preliminary recommendations based upon the findings from our investigation, as well as conclusions reached by our auditors:

- Policies and procedures should be revised to ensure that the AmeriCorps Program Office staff, the Office of Grants Management staff and the Trust Office staff are involved in the budgeting process, National Service position approval and amendment process. The Trust Office staff should ensure that funds are available in the Trust to meet the estimated liability to be incurred prior to National Service position approval.
- Reports should be generated on a monthly basis to compare the number of approved National Service positions to the actual members enrolled. Senior management should review these reports on a timely basis to ensure that enrollments do not exceed the Corporation's estimates.
- Automated controls should be implemented in WBRS to limit approval of additional enrollments to authorized officers in the Grants Management Office, and to prevent grantees from enrolling members after the program year enrollment period ends.

On January 7, 2003, the CEO directed that new procedures be implemented regarding AmeriCorps enrollment. My office has initiated work to assess these procedures and will issue a report on the matter. Initial meetings have been held with senior management. We are in the process of gathering and reviewing procedures that have been developed and are currently being implemented. Every 2 weeks, Trust enrollment Summary Reports are now being provided to senior management. These reports show the number of positions awarded and enrolled.

Mr. Chairman, this concludes my prepared statement. I will be pleased to answer any questions you might have.

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PREPARED STATEMENT OF CORNELIA M. ASHBY, DIRECTOR, EDUCATION, WORKFORCE  
AND INCOME SECURITY ISSUES, AND SUSAN A. POLING, ASSOCIATE GENERAL COUN-  
SEL, GENERAL ACCOUNTING OFFICE

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

PRELIMINARY OBSERVATIONS ON THE NATIONAL SERVICE TRUST AND AMERICORPS

*Why the GAO Did This Study*

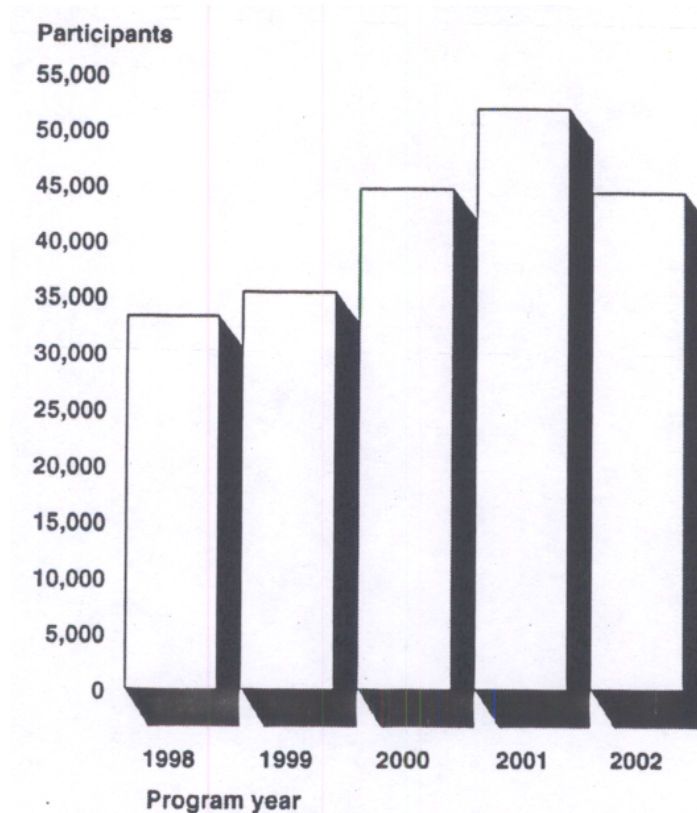
In November 2002, the Corporation for National and Community Service suspended enrollments in the AmeriCorps program due to concern that the National Service Trust may not contain enough funds to meet the education award obligations resulting from AmeriCorps enrollments. This testimony reflects GAO's preliminary review of the factors that contributed to the need to suspend enrollments and GAO's preliminary assessment of the Corporation's proposed changes.

*What GAO Found*

As shown in the figure below, the number of participants enrolled in AmeriCorps increased by about 20,000 from program year 1998 to program year 2001. However, the number of AmeriCorps participants was not reconciled with the number of education awards that the National Service Trust could support.

GAO identified several factors that led the Corporation to suspend enrollments. The factors included inappropriate obligation practices, little or no communication among key Corporation executives, too much flexibility given to grantees regarding enrollments, and unreliable data on the number of AmeriCorps participants.

The Corporation has established new policies that may improve the overall management of the National Service Trust if the policies are fully implemented. However, the Corporation has not made policy changes to correct a key factor—how it obligates funds for education awards.



Source: 1998 through 2001 data from the National Service Trust database. 2002 data provided by the AmeriCorps program office.

Note: Participants shown are for AmeriCorps\*State and National programs only. Participants for AmeriCorps\*National Civilian Community Corps and its VISTA programs are not included. Data for program years 1998 through 2001 represents actual participants. Program year 2002 data represent awarded positions. Program year varies by grantee.

Mr. Chairman and Members of the subcommittee, we are pleased to have the opportunity to comment on the preliminary findings from our ongoing study of the Corporation for National and Community Service's (the Corporation) management and oversight of the National Service Trust (the Trust). The National Service Trust is a dedicated fund within the Corporation that is to maintain sufficient funds to pay National Service educational awards to participants in the Corporation's AmeriCorps program. In November 2002, AmeriCorps suspended enrollment of program participants. This statement will identify some of the factors that contributed to this suspension and related policy changes the Corporation has made since then.

These comments are primarily based on our preliminary analysis of documents and information obtained through interviews with Corporation staff. In addition, this statement reflects the April 9, 2003, opinion we provided the committee concluding that the Corporation incurs an obligation for education benefits when it enters into a grant agreement for the approved number of new participants and therefore it must record the obligation against the budget authority available in the Trust. See Appendix I for the opinion. In summary, the factors we identified, to date, that led the Corporation to suspend enrollments include inappropriate practices for obligating funds, little or no communication among key Corporation executives, and too much flexibility given to grantees—they were allowed to adjust authorized positions and were not required to provide timely information about the



number of participants. While the Corporation has established new policies that may improve the overall management of AmeriCorps if the policies are fully implemented, the Corporation has not made policy changes to correct a key factor—how it obligates funds.

#### BACKGROUND

The Corporation for National and Community Service was created to help meet community needs in education, the environment, and public safety and to expand educational opportunity by rewarding individuals who participate in National Service.<sup>1</sup> The Corporation is part of USA Freedom Corps, a White House initiative to foster a culture of citizenship, service, and responsibility and help all Americans answer the President's call to service. The Corporation receives appropriations to fund program operations and the National Service Trust. The Corporation makes grants from its program appropriations to help grant recipients carry out National Service programs.

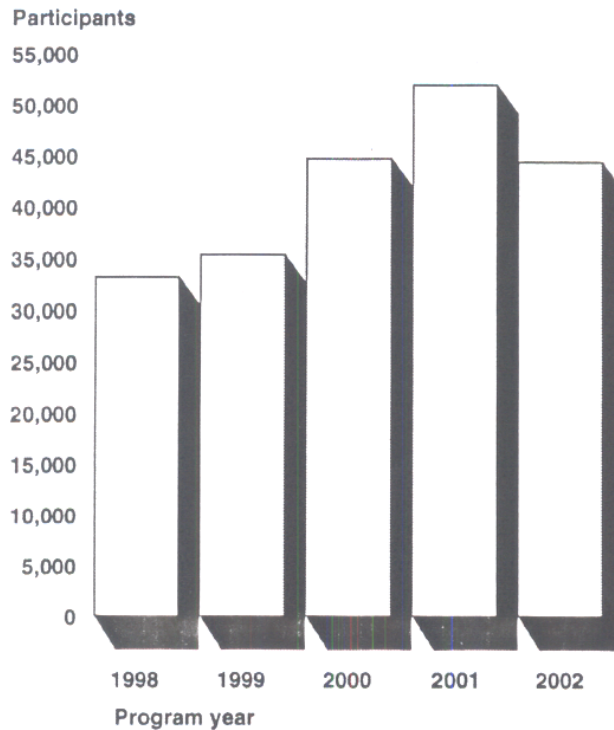
AmeriCorps is one of three National Service programs the Corporation oversees.<sup>2</sup> Most of the grant funding from the Corporation for AmeriCorps programs goes to State service commissions, which award subgrants to nonprofit groups and agencies that enroll the AmeriCorps' participants. Participants in the AmeriCorps program can receive a stipend as well as health benefits and childcare coverage. For example, about one-half of AmeriCorps' participants received an annual living allowance of \$9,300 and health benefits. Those participants who successfully complete a required term of service earn an education award that can be used to pay for undergraduate school, or graduate school, or to pay back qualified student loans. In exchange for a term of service, full-time AmeriCorps participants earned an education award of \$4,725 in program year 2002. Participants have up to 7 years from the date of completion of service to use the education award. AmeriCorps also enrolls participants on a part-time basis and as "education awards only" participants. Part-time participants who serve 900 or fewer hours annually earn education awards proportional to those earned by full-time participants. Under the "education awards only" program, AmeriCorps does not pay the participant a living allowance or other benefits, but provides grant funding for administrative purposes only, about \$400 per full-time participant annually. However, each participant receives an education award equivalent to that earned by a paid AmeriCorps participant. The number of AmeriCorps participants increased by nearly 20,000 from 1998 to 2001. The program year 2002 data indicate the number of positions awarded will decrease by about 8,000. (See figure 1.)

<sup>1</sup>The National and Community Service Act of 1990 created the Corporation.

<sup>2</sup>The Corporation oversees the Senior Corps, AmeriCorps, and Learn and Serve America. AmeriCorps consists of three programs: AmeriCorps\*State and National, AmeriCorps\*VISTA, and AmeriCorps\*National Civilian Community Corps.

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**Figure 1. AmeriCorps Participants from 1998 to 2002**



Source: 1998 through 2001 data from the National Service Trust Database. 2002 data provided by the AmeriCorps program office.

Note: Participants shown are for AmeriCorps\*State and National programs only. Participants for AmeriCorps\*National Civilian Community Corps and its VISTA programs are not included. Data for program years 1998 through 2001 represents actual participants. Program year 2002 data represent awarded positions. Program year varies by grantee.

In November 2002, the Corporation suspended enrollments in AmeriCorps because total enrollments were potentially higher than the Corporation had expected. No new funds had been requested by and appropriated to the Trust for fiscal year 2002, and under the continuing resolution at the start of fiscal year 2003, no new funds would be deposited into the Trust until the Corporation's fiscal year 2003 appropriations were enacted. The Corporation concluded that if its grantees and sub-grantees were to fully enroll new participants up to the maximum number of enrollments the Corporation had approved in its grants, the Trust would not have a sufficient amount to provide the educational awards to those participants. Enrollments in AmeriCorps were frozen from November 2002 through March 2003.

#### THREE FACTORS CONTRIBUTED TO THE NEED TO SUSPEND AMERICORPS ENROLLMENTS

Three factors contributed to the Corporation's need to suspend enrollments in AmeriCorps. Although the Corporation specified the maximum number of new participants in the grants it awarded, the Corporation did not recognize its obligation to fund participant education awards until it actually paid the benefits. Had the Corporation properly tracked and recorded its obligations in the Trust at the time of grant award when it approved new enrollments, it likely would not have needed to suspend enrollments. In addition, there was little, if any, communication among the AmeriCorps program office, the grants management office, and the Trust about the number of positions that the Trust could support. Furthermore, by allowing

grantees various flexibilities and not requiring them to provide timely enrollment information, the Corporation and AmeriCorps managers could not be certain about the number of participants.

#### *Inappropriate Obligation Practices*

The Corporation did not appropriately record or track its obligations for education awards to program participants. Generally, an agency incurs an obligation for the amount of the grant award with the execution of a grant agreement. The Corporation enters into grant agreements with State service commissions in which it specifies the budget and project period of the award, the total number of positions approved, the total amount awarded for program costs for the approved positions, and the terms of acceptance. The award for the program costs is used to pay participants' stipends and health and child care coverage. The Corporation incurs an obligation for these program costs at the time of grant award.<sup>3</sup> While the costs of education awards for the new participants are not specified in the grants, in the grant agreements the Corporation commits to funding education awards for all of the qualified positions initially approved in a grant if the subgrantee enrolls all of the participants before the Corporation modifies the terms or conditions of the grant. In other words, upon award of the grant, the Corporation, at a minimum, has accepted "[a] legal duty . . . which could mature into a legal liability by virtue of actions on the part of the other party beyond the control of the United States." However, the Corporation has concluded that it is not necessary to obligate funds until an individual actually enrolls in AmeriCorps. Therefore, the Corporation recorded education award obligations on an outlay basis. That is, obligations were recorded at the time of the quarterly drawdown of amounts for education awards from the Trust.

By failing to recognize and record its obligations at the time of grant award, the Corporation had no assurance that the number of positions approved in grant awards did not exceed the amount of educational awards the Trust could support. Proper recording of obligations serves to protect the government by ensuring that it has adequate budget authority to cover all of its commitments and prevent agencies from over-obligating its budget authority.

#### *Lack of Communication*

Corporation executives we interviewed said that there was little if any coordination between the AmeriCorps program office and officials responsible for the management of the Trust about the number of positions that the Trust could support. The AmeriCorps director said that she considered the grant budget independent from the Trust and she neither consulted with nor received direction from the Trust director when making decisions about the grants. In addition, in recent years, AmeriCorps has tried to increase the number of participants by enrolling them in the "education awards only" program. Under this program, which was an effort to lower the per participant program cost, AmeriCorps provides funding to grantees for administrative purposes only, currently about \$400 per full-time participant annually. Increasing the number of participants in this way is at a low cost to the AmeriCorps program appropriation, but at full cost to the Trust, which funds the education awards, because each participant receives an education award equivalent to that earned by a paid AmeriCorps participant. Consequently, the number of positions funded by AmeriCorps grants was not reconciled with the number supportable by the Trust. According to Corporation officials we spoke with, the Trust's funding needs were based on an expected enrollment of 50,000, while the AmeriCorps program office approved grants for about 75,000 participants.

Corporation officials also said that prior to suspending enrollments in AmeriCorps, the Trust was so well funded it did not warrant their attention. They told us that early in the AmeriCorps program, a goal of 50,000 participants annually was used for Trust budgeting purposes. However, it was found that fewer than that number of participants enrolled, and not all of those who participated earned education awards. Additionally, a Corporation budget official said that in the past those who earned education awards were not using them as quickly as expected. Even as the number of AmeriCorps participants grew, the Trust's accounting records showed an unobligated balance that was high enough for Congress to rescind \$111 million over fiscal years 2000 and 2001, resulting in the deobligation of the Trust by this amount. Given this history, Corporation managers did not see the need to reconcile the number of positions created by grant funding with the number the Trust could support. The Trust balance was not viewed as a constraining factor. Because the

<sup>3</sup>We have not examined and accordingly express no opinion on whether the Corporation is appropriately obligating program costs in the applicable appropriation account.

number of positions approved in the grants was not reconciled with the Trust before grants were awarded, there was the potential for grantees to enroll more participants than the Trust could support.

*Grantees Allowed to Adjust Authorized Positions and Not Required to Provide Timely Participant Information*

Two program management policies affected the number and type of participants and, therefore, the use of Trust funds. One policy permitted grantees to over enroll participants under certain circumstances with approval from their AmeriCorps program officer. Specifically, the policy allowed grantees to over enroll up to 20 percent. The program year 2002–2003 data indicate that while only a few of the grantees increased their enrollment, some increased theirs by more than 20 percent. Another policy allowed grantees to convert positions from full-time to part-time as long as the total number of full-time equivalents supported by the grant did not change. While this practice did not affect the program funds, it did affect the Trust. After the enrollments were suspended, Corporation officials determined that part-time participants used their education awards at a higher rate than full-time participants and therefore the number of part-time participants resulted in a relatively higher level of use for the education award.

The Corporation did not have reliable data on the number of AmeriCorps participants during the period leading up to the suspension. Enrollments are recorded by grantees through the Corporation's Web-Based Reporting System (WBRS). While the enrollment information in WBRS was uploaded into the Corporation's database and used to track education award obligations on a weekly basis, Corporation officials said that discrepancies existed between the number of participants enrolled and the number the Corporation was aware of, because of the length of time between when a participant started to serve and when the grantee entered information into WBRS. A Corporation official said that it was not unheard of for some grantees to be 60 to 90 days late in entering an enrollment into WBRS.

By allowing grantees the flexibility to change the number and type of participants coupled with delays in receiving information on enrollments, the Corporation and AmeriCorps managers could not be certain about the number of participants. Corporation officials said that this resulting lack of confidence in the data was a contributing factor to the decision to suspend enrollments.

NEW POLICIES ESTABLISHED, BUT ADDITIONAL CHANGES MAY BE NEEDED

In response to concerns that the AmeriCorps program may have enrolled participants without adequately providing for their education awards, the Corporation has developed several new policies. While the Corporation is modifying its practice of when it records obligations, the Corporation overlooks the legal duty it incurs at the time of grant award. Other policy changes are directed to improving communication among key executives, limiting grantees' flexibilities and requiring more timely information on participants. While these policies were only recently introduced, they could, if implemented, help the Corporation keep track of the day-to-day aspects of the AmeriCorps program and provide information needed to monitor the use of the Trust in order to determine whether the Corporation should make adjustments, such as deobligating excess funds. However, data integration problems between WBRS and the program the Corporation uses to track the education awards earned by AmeriCorps participants may hamper the effectiveness of the new procedures.

*New Policies for Obligating Funds*

The Corporation is in the process of modifying its practices regarding when it will record obligations. The Corporation's General Counsel explained that the Corporation will record obligations at the time of enrollment, instead of on a quarterly drawdown basis and that the obligations will be based on estimates of what these enrolled members will draw down in the future. The Corporation is of the opinion that it does not incur an obligation for an education award until the time of enrollment because it may modify the terms and conditions of a grant, including a reduction in the number of new participants the grantee may enroll, prior to the enrollment of all positions initially approved in a grant, to prevent a shortfall in the Trust. The General Counsel also said "... binding agreement between the Government and an AmeriCorps member [participant] exists only upon the member's [participant's] authorized enrollment in the Trust."

While it may be true that the Corporation has no binding agreement with a participant until the participant enrolls in AmeriCorps, this is not the controlling consideration for fund control purposes. In our opinion, this view overlooks the legal duty the Corporation incurs at the time of grant award when it commits to funding a specified number of participants and the constraint imposed on the Corporation

by the National and Community Service Act. Specifically, the act says “. . . [t]he Corporation may not approve positions as national service positions . . . for a fiscal year in excess of the number of positions for which the Corporation has sufficient available funds in the National Service Trust for that fiscal year . . .”. The Corporation, by its own admission, may modify the number of approved participants only if it amends the grant agreement to reduce the number of enrolled positions prior to enrollment. When a grant is awarded, the number of new participants approved in the grant establishes a legal duty that can mature into a legal liability for education awards by virtue of actions of the grantee, unless the Corporation modifies the grant prior to participant enrollment. While the Corporation may unilaterally reduce the number of authorized positions awarded to a grantee prior to participant enrollment, from the time of grant award until the Corporation acts to reduce the approved number of positions, the grantee and its subgrantee, not the Corporation, will control the number of participants who may enroll, up to the maximum number of participants the Corporation has approved in the grant agreement.

It is also significant to note that the grantee and subgrantee, by their actions in enrolling participants, not the Corporation, control the amount, ultimately, of the Corporation's liability. If the amount of liability to the government is under the control of the grantee, not the Corporation, the government should obligate funds to cover the maximum amount of the liability. As more information is known, the Corporation should adjust the obligation—deobligate funds or increase the obligation level—as needed.

The Corporation also said that at the time a member enrolls it would record its “. . . best estimate of the Government's ultimate liability of education awards provided to members [participants] enrolled in the National Service Trust.” According to the Corporation's General Counsel, the Corporation's estimates of the amount that enrolled members [participants] will draw down is based on historical information, such as attrition rate and actual usage by participants who complete a term of service and earn an education award. It appears to us that the Corporation is confusing its accounting liability—projections booked in its accounting systems for financial statement purposes, with its legal liability—amounts to be recorded in its obligational accounting systems and tracked in order to ensure compliance with fiscal laws. One of the Federal financial accounting standards States that a liability for proprietary accounting purposes is a probable and measurable future outflow or other sacrifice of resources as a result of past transactions or events. Traditionally, projections of accounting liability consider the same factors, such as historical trends, that are considered in the Corporation's model. To track its obligations, the Corporation should be recording its unmatured legal liability for the education awards, which is the total cost associated with the enrollment of all approved positions. The Corporation's obligation should be recorded as it is incurred and should be calculated by multiplying the number of approved positions in a grant by the total cost of a National Service educational award.

#### *More Communication Planned Among Key Corporation Managers*

Policy changes at Corporation headquarters are designed to improve communication between several key offices and officials. A major change is that the Trust balance is to be a limiting factor on grant awards and, therefore, enrollment levels. In addition, beginning with the 2003 grant cycle,<sup>4</sup> one new policy calls for the AmeriCorps director to work with the grants director, the Chief Financial Officer (CFO), and the Trust director to compare projections of positions to be approved in grants with those supported by actual appropriations, and the Chief Executive Officer (CEO) will only approve the number of positions the Trust can support. Additionally, the CEO will approve all AmeriCorps grants after consultation with the CFO on the number of education awards that can be supported by the Trust. Also, the policy states that the CEO, CFO, the Trust director, and the AmeriCorps director will meet at least monthly to review and reconcile enrollment data and Trust data. Through bi-weekly reports, the AmeriCorps director and the Trust director are to keep the CEO and CFO informed of the number of approved and filled positions. The Trust director is to monitor factors relevant to forecasting Trust liabilities and report regularly to the CFO, highlighting deviations from assumptions in the model. Each month the CFO is to use actual enrollment data to re-evaluate the model for forecasting Trust liabilities. If the revision results in a need to change enrollment targets, the CFO will notify the CEO and AmeriCorps director immediately. The CEO will take appropriate action and report any such action to Congress, the Corporation's Board, and the Office of Management and Budget.

<sup>4</sup>The Corporation's 2003 grant review cycle began in the spring of 2003.

Regular meetings and attention to the enrollment data should help the Corporation keep track of the day-to-day aspects of the AmeriCorps program. Such updated information is an important step in monitoring the use of the Trust in order to determine whether the Corporation should make adjustments. For example, if the Corporation obligated the full cost for each of the positions approved at the time of grant award, and later determined that many of the positions will not be filled, it could reduce the number of approved positions and deobligate some of the funds. The policy changes and new procedures were announced in January. We will continue to monitor the implementation of these policy changes.

*Grantees No Longer Permitted to Change Authorized Positions*

The Corporation has changed policies regarding its grantees ability to over enroll participants, replace participants who leave with new enrollees and change positions from full-time to part-time. In a January 22, 2003, memorandum, the director of AmeriCorps cancelled the policy that allowed grantees to over enroll members by up to 20 percent over the ceiling established in the grant award in order to take account of attrition. Furthermore, an official said AmeriCorps now considers a position to be filled for the term of the grant once the grantee enrolls a participant, even if the participant later drops out of the program, whether or not an education award was earned. The official said that in the past, grantees could enroll a new member to serve out the balance of the term if grant funds were available. A Corporation official also said that there is a new policy that restricts grantees from converting full-time positions to part-time positions. Grantees must now request and receive approval from the Corporation before such changes can be made.

Since grantees will not be permitted to modify the number and type of authorized positions, the Corporation's ability to manage the AmeriCorps program should improve. Most 2003 grant positions have not yet been awarded; therefore, it is too early to tell whether these new policies will be effective. We will monitor these policies and assess the extent to which they have been implemented as we complete our work.

*Grantees Will Be Required to Report Participant Information Within 30 Days, but Data Reconciliation Problems May Need To Be Addressed*

In January 2003 the Corporation informed all grantees that AmeriCorps will require timely reporting of participant information to ensure that the Trust database receives current information on the number of participants eligible for an education award. Grantees will be required to keep AmeriCorps informed of the number of participants offered positions and the number who accept and enroll and to document enrollment through WBRS no later than 30 days after participants start working. The memorandum warns grantees that failure to comply with this requirement could result in reductions in the number of positions or termination of the grant. Additionally, the memorandum directs State commissions and other AmeriCorps grantees—the organizations responsible for the oversight of subgrantees—to implement procedures to ensure that timely notification of participant commitments and enrollments is part of their review and oversight functions.

Furthermore, the Corporation has made changes to WBRS, which is used to track participant, grant, and budget information. First, controls have been put in place to limit the number of positions listed in WBRS to no more than the number of approved positions. The Corporation's Biweekly Trust Enrollment Summary, as of March 2003, shows that award totals are being tracked and compared with the data estimates in the Trust. However, officials told us that there are some data reconciliation problems between WBRS and the program used by the Corporation to track the education awards earned by AmeriCorps participants. Corporation staff have had to make manual adjustments to reconcile the data.

Accurate and timely information about enrollments should help the Corporation and AmeriCorps manage the program. As grants are awarded, we will be able to assess whether the policies have been fully implemented.

CONCLUSION

The Corporation's new policies, if fully implemented, should help the Corporation manage the AmeriCorps program by providing better information on day-to-day operations. However, without obligating the full amount associated with all of the positions authorized in the grants, the Corporation remains at risk of having the actual number of enrollments exceed the estimated number the Trust can support. We will monitor the implementation of the Corporation's new policies as we continue our review.

## GAO CONTACT AND ACKNOWLEDGMENTS

For further information regarding this statement, please call Cornelia M. Ashby or Susan A. Poling. Individuals making key contributions to this testimony included Carolyn M. Taylor, Tom Armstrong, Anthony DeFrank, Joel Marus, and Hannah Laufe.

## APPENDIX I: OBLIGATIONAL PRACTICES OF THE CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

UNITED STATES GENERAL ACCOUNTING OFFICE,  
Washington, DC, April 9, 2003.

*Subject: Obligational Practices of the Corporation for National and Community Service*

The Honorable CHRISTOPHER BOND,  
Chairman,

The Honorable BARBARA MIKULSKI,  
Ranking Minority Member,

Subcommittee on VA, HUD, and Independent Agencies, Committee on Appropriations, United States Senate.

This responds to your letter dated February 25, 2003. You requested that we determine whether the Corporation for National and Community Service (Corporation) incurs a legal liability for the award of National Service educational benefits of AmeriCorps participants at the time it enters into a grant agreement authorizing a grantee to enroll a certain number of AmeriCorps participants, or at the time a participant enrolls in the AmeriCorps program. Subsequent to your letter, your staff explained to us that your question arises in the context of your efforts to ensure that the Corporation is properly recording obligations of the Corporation for National and Community Service National Service Trust (Trust).

As we explain in further detail below, the Corporation incurs an obligation for education benefits when it enters into a grant agreement. At the time of grant award, the Corporation approves the grantee's enrollment of a specified number of new participants in the AmeriCorps program. By this action, the Corporation incurs a legal duty that once fully matured, by action of the grantee and participants outside the Corporation's control, will require the Corporation to pay education benefits to qualified participants from the National Service Trust. As the Corporation incurs an obligation for the education benefits, it must record the obligation against the budget authority available in the Trust.

You also requested that we review the Corporation's request for a deficiency appropriation for the Trust. We will provide a subsequent response addressing this request.

*Background*

The Corporation for National and Community Service was created to help community needs in education, the environment, and public safety, to expand educational opportunity by rewarding individuals who participate in national service, and to encourage citizens to engage in national service. National and Community Service Trust Act of 1993, Pub. L. No. 103-82, 107 Stat. 785, 42 U.S.C. § 12501. One of the three National Service programs the Corporation oversees is AmeriCorps. Participants in the AmeriCorps program who successfully complete a required term of service earn a National Service educational award of up to \$4,725 that can be used to pay for college, graduate school, an approved school-to-work program, or qualified student loans. 42 U.S.C. § 12604(a); 45 C.F.R. § 2527.10. Participants who earn the award have up to 7 years in which to use it. 42 U.S.C. § 12602(d)(1). While the Corporation pays the education benefits directly from the Trust, 42 U.S.C. § 12601(c), the Corporation also is authorized to make grants for the purpose of assisting grant recipients in carrying out National Service programs. 42 U.S.C. § 12571(a). The Corporation provides grant funds for program costs, including a stipend, and health and child care coverage. In its grants, the Corporation also approves enrollment of a specified number of new participants. See, e.g., AmeriCorps Grant Award to City Year, Inc., Aug. 3, 2000.<sup>1</sup> Most of the grant funding from the Corporation for AmeriCorps programs goes to governor-appointed State service commissions, which award subgrants to nonprofit groups, who then enroll the AmeriCorps participants. Corporation for National and Community Service website, <http://www.national service.org>.

<sup>1</sup>The Corporation provided us with a copy of this grant agreement.

The AmeriCorps program is funded through the Departments of Veterans Affairs, Housing and Urban Development, and Independent Agencies Appropriations Act (VA–HUD Appropriations Act). Congress appropriates amounts in the VA–HUD Appropriations Act on a no-year basis to the National Service Trust. See, e.g., VA–HUD Appropriations Act, 2001, Pub. L. No. 106–377, 114 Stat. 1441 (“not more than \$70,000,000, to remain available without fiscal year limitation, shall be transferred to the National Service Trust account for educational awards authorized under subtitle D of title I of the Act”). The National Service Trust is a dedicated fund within the Corporation used to pay National Service educational awards to eligible participants. 42 U.S.C. § 12601(c) (“[a]mounts in the Trust shall be available, to the extent provided for in advance by appropriation, for payments of National Service educational awards in accordance with section 12604 of this title”). The amount deposited into the Trust is to be equal to the product of the value of a National Service educational award and the total number of approved National Service positions. 41 U.S.C. § 12571(c). Of significance is a provision that prohibits the Corporation from approving positions for a fiscal year unless sufficient funds are available in the National Service Trust. It states that “[t]he Corporation may not approve positions as approved national service positions . . . for a fiscal year in excess of the number of positions for which the Corporation has sufficient available funds in the National Service Trust for that fiscal year . . .” 42 U.S.C. § 12581(f).

Your question arises in the context of the Corporation’s decision to suspend participant enrollment in the fall of 2002 because the Corporation feared that the Trust would not have sufficient funds to cover education awards for all approved enrollees. For fiscal year 2002, the President did not request and the Congress did not appropriate funds for the Trust, based apparently on the administration’s determination that sufficient funds were available to support fiscal year 2002 education benefit outlays. Letter from Phillip J. Perry, General Counsel, Office of Management and Budget, to Susan A. Poling, Associate General Counsel, General Accounting Office (GAO), Mar. 31, 2003. According to the Corporation’s General Counsel, in the fall of 2002, internal controls alerted the Corporation to the fact that grantees were enrolling members at an unexpectedly high rate, and the Corporation determined that “in all likelihood the obligations associated with those approved positions would exceed budgetary resources in the National Service Trust.” Letter from Frank R. Trinity, General Counsel, Corporation for National and Community Service, to Susan A. Poling, Associate General Counsel, GAO, Mar. 21, 2003. In response, the Corporation amended all AmeriCorps grants to suspend enrollments as of November 15, 2002, and did not permit any additional enrollments until Congress appropriated additional funds to the Trust. *Id.* Notwithstanding these actions, according to the audit of the Corporation’s fiscal year 2002 financial statements, in fiscal year 2002, the Corporation had approved AmeriCorps National Service positions in excess of the number of positions that the Trust could support and thus violated 42 U.S.C. § 12581(f). Audit of the Corporation for National and Community Service’s fiscal year 2002 Financial Statements, Audit Report 03–01 at 24, KPMG, Feb. 4, 2003.

#### *Analysis*

The issues presented are (1) when does the Corporation incur an obligation for education benefits, and (2) in what amount does the Corporation incur an obligation for these benefits. Understanding the concept of an obligation and properly recording obligations are important because an obligation serves as the basis for the scheme of funds control that Congress envisioned when it enacted such fiscal laws as the Antideficiency Act. 31 U.S.C. § 1341(a); B–237135, Dec. 21, 1989. Under that act, an agency may not incur an obligation in excess of the amount available to it in an appropriation, 31 U.S.C. § 1341(a); accordingly, proper recording of obligations permits compliance with the Antideficiency Act by ensuring that government agencies have adequate budget authority to cover all of their obligations. 42 Comp. Gen. 272, 275 (1962).

#### *Determining the Obligational Event*

A general definition of an obligation is “a definite commitment that creates a legal liability of the government for the payment of goods and services ordered or received.” B–116795, June 18, 1954. A legal liability is defined, generally, as any duty, obligation or responsibility established by a statute, regulation, or court decision, or where the agency has agreed to assume responsibility in an interagency agreement, settlement agreement, or similar legally binding document. See Black’s Law Dictionary 925 (7th ed. 1999). While we ordinarily consider obligations as “legal liabilities,” for the concept to be meaningful for funds control purposes, we have not limited the definition solely to agency actions that create legal liabilities, but also have extended the definition to include “[a] legal duty on the part of the United States



which constitutes a legal liability or which could mature into a legal liability by virtue of actions on the part of the other party beyond the control of the United States . . .” 42 Comp. Gen. 733, 734 (1963); see also *McDonnell Douglas Corp. v. United States*, 37 Fed. Cl. 295, 301 (1997).

When the Corporation awards a grant, it enters into a binding agreement authorizing the grantee to enroll a specified number of new participants in the AmeriCorps program. In addition, when the Corporation enters into grant agreements with State service commissions, it specifies the budget and project period of the award, the total number of positions approved, the total amount awarded for related program costs for the approved positions, and the terms of acceptance. See, e.g., *AmeriCorps Grant Award to City Year, Inc.*, Aug. 3, 2000. The amounts awarded for related program costs are used by the grantee to pay participants’ stipends and health and child care coverage. The Corporation incurs an obligation for these program costs at the time of grant award.<sup>2</sup> See, e.g., B-289801, Dec. 30, 2002; B-167790, Jan. 15, 1973. The costs of education benefits for the new participants are not specified in the grants.

Nevertheless, at the time of grant agreement, the Corporation commits to fund education benefits for all of the positions approved in the grant if all of the positions are enrolled before the Corporation modifies the terms or conditions of the grant. Letter from Frank R. Trinity, General Counsel, Corporation for National and Community Service, to Susan A. Poling, Associate General Counsel, GAO, Mar. 21, 2003. At the time of grant award, when the Corporation approves enrollment of a specified number of new participants, the Corporation has taken an action that can mature into a legal liability for the education benefits of the new participants by virtue of actions taken by the grantee and participants, not the Corporation. In other words, upon award of the grant, the Corporation, at a minimum, has accepted “[a] legal duty . . . which could mature into a legal liability by virtue of actions on the part of the grantee beyond the control of the United States.” 42 Comp. Gen. 733, 734 (1963). In our view, therefore, the Corporation incurs a recordable obligation at grant award for the education benefits of the approved number of new participants.

We think our view of when the obligational event occurs is entirely consistent with applicable provisions of the National and Community Service Trust Act. As noted above, the Act requires the Trust to have adequate funds to cover the total number of approved positions. 42 U.S.C. § 12581(f). The language of section 12581(f) focuses on the Corporation’s approval of positions as the obligational event for fund control purposes: “[t]he Corporation may not approve positions as approved national service positions . . . for a fiscal year in excess of the number of such positions for which the Corporation has sufficient available funds in the National Service Trust for that fiscal year . . .”.

The General Counsel of the Corporation has concluded, however, that the obligational event with respect to the education award occurs no earlier than the enrollment of an individual in the Trust. Letter from Frank R. Trinity, General Counsel, Corporation for National and Community Service, to Susan A. Poling, Associate General Counsel, GAO, Mar. 21, 2003. In the past, the Corporation recorded education award obligations on an outlay basis, i.e., it recorded an obligation at the time of the quarterly drawdown of education awards from the Trust. *Id.* The General Counsel explained, however, that the Corporation is in the process of modifying its procedures for recording obligations and now will record obligations at the time of enrollment based on estimates of what these enrolled members will draw down in the future. *Id.* The General Counsel stated that the Corporation does not incur an obligation for an education award until the time of enrollment because the Corporation may modify the terms and conditions of a grant, including suspension of enrollment into the Trust, prior to the enrollment of all positions initially approved in a grant. According to the General Counsel, this permits the Corporation, if necessary, to prevent a shortfall in the Trust. The General Counsel also stated that “a binding agreement between the Government and an AmeriCorps member exists only upon the member’s authorized enrollment in the Trust.” *Id.* While it may well be true that the Corporation has no binding agreement with a participant until the participant enrolls, we do not view this as the controlling consideration for funds control purposes. In our opinion, this view overlooks the legal duty the Corporation incurs at time of grant award when it commits to funding a specified number of participants and ignores the constraint imposed on the Corporation by section 12581(f).

The Corporation, by its own admission, may modify the number of approved participants only if it amends the grant agreement to reduce the number of enrolled positions prior to enrollment. While the Corporation may unilaterally reduce the

<sup>2</sup>We have not examined and accordingly express no opinion on whether the Corporation is appropriately obligating these costs in the applicable appropriation account.

number of authorized positions awarded to a grantee prior to participant enrollment, from the time of grant award until the Corporation acts to reduce the approved number of positions, the grantee and its subgrantee, not the Corporation, controls the number of participants who may enroll, up to the maximum number of participants the Corporation has approved in the grant agreement. The fact that the government may have the power to amend unilaterally a contract or agreement does not change the nature or scope of the obligation incurred at time of award. Were it otherwise, every government contract that permits the government to terminate the contract for the convenience of the government (48 C.F.R. § 49.502), or to modify the terms of the contract at will (48 C.F.R. §§ 52.243-1, 243-2, 243-3), would not be an obligation of the government at time of award. Long-standing practice and logic both of the Congress (31 U.S.C. § 1501, 41 U.S.C. § 5) and the accounting officers of the government (B-234957, July 10, 1989, B-112131, Feb. 1, 1956) have rejected such a view. As we explained earlier, at the time of grant award, the Corporation's approval of a specified number of new participants establishes a legal duty that can mature into a legal liability for education benefits by virtue of actions of the grantee that are beyond the control of the Corporation unless the Corporation takes affirmative action to modify the grant.

*Amount of the Obligation*

For purposes of identifying the amount of the Corporation's obligation at grant award, it is also significant that the grantee and subgrantee, by their actions in enrolling participants, ultimately control the amount of the Corporation's liability. If the amount of liability of the government is under the control of the grantee, not the Corporation, the government should obligate funds to cover the maximum amount of the liability. See, e.g., B-238581, Oct. 31, 1990; B-197274, Sept. 23, 1983. As more information is known, the Corporation may adjust the obligation, i.e., deobligate funds or increase the obligational level, as needed.

The General Counsel stated that at the time a member enrolls and the Corporation records an obligation for the member's education benefits, the Corporation will record its "best estimate of the Government's ultimate liability for education awards provided to members enrolled in the National Service Trust." Letter from Frank R. Trinity, General Counsel, Corporation for National and Community Service, to Susan A. Poling, Associate General Counsel, GAO, Mar. 21, 2003. According to the General Counsel, the model the Corporation will use to make estimates of what enrolled members will draw down in the future, i.e., the amount the Corporation will obligate, uses historical information, such as attrition rate and actual usage by members who complete a term of service and earn an education award.

It appears to us that the Corporation is confusing its accounting liability, projections booked in its proprietary accounting systems for financial statement purposes, with its legal liability, amounts to be recorded in its obligational accounting systems and tracked in order to ensure compliance with fiscal laws. For proprietary accounting purposes a liability is a probable and measurable future outflow or other sacrifice of resources as a result of past transactions or events. FASAB Statement of Federal Financial Accounting Standards Number 1. Some types of projections of accounting liability consider the same factors, such as historical trends, that are considered in the Corporation's model. For purposes of tracking its obligations, the Corporation should be recording its unmatured legal liability for the education benefits, which is the value of an educational award multiplied by all approved positions. At the time of grant award, the Corporation should record an obligation incurred for the education benefits against the National Service Trust and the obligation incurred for the related program costs awarded for each of the approved positions against the appropriate account in the VA-HUD Appropriations Act. As the grantees' authority under the grant agreement to enroll participants in the AmeriCorps program expires or if the Corporation modifies the grantees' authority, under the grant agreement the Corporation should deobligate previously obligated amounts to reflect the change in the Corporation and the Trust's legal exposure.

We trust this is responsive to your request. If you have any questions, please contact Susan A. Poling, Associate General Counsel.

ANTHONY H. GAMBOA,  
*General Counsel.*

[CLERK'S NOTE.—The audit documents submitted as attachments to the statement from the Corporation for National and Community Service have been retained in Committee files.]

## EDUCATION TRUST ENROLLMENTS

Senator BOND. Dr. Lenkowsky, I have expressed my disappointment about the overenrollment problems. The IG found that the senior staff was aware of the problem as early as last July, but you did not inform the committee or take action until November.

When these warnings were first disclosed, were they disclosed to you in July? What did you do? What specific steps did you take to address the problem and respond, and why did you not notify the committee or suspend enrollments sooner?

Dr. LENKOWSKY. Mr. Chairman, I was informed in late July that the enrollments were going above 50,000, and I think the full memo will be in the Inspector General's report that minimized the relevance of that for the Trust. It said, in effect, down the line we may have to look at the Trust. Most of the memo was devoted to explaining that the reason we were getting such high enrollments was because we were lowering the cost per member.

I have been concerned from the day I walked into the Corporation about two things, and I have been making that point pretty clearly, including my testimony here last year. One was our inability to tell what was happening. We knew applications were going up, but we were unable to tell where the applicants were going, whether they were filling positions.

And the second, which was the point I made at this committee last year, was that our program staff and grantees were not always connecting program expenditures to Trust expenditures. This was the first warning sign.

The second came about 6 weeks later, in August. At that point I was advised that certain individuals in the Corporation were going to examine this in more detail and get back to me. At that point, I went over to our congressional people. The President had nominated Ms. Guillermin to be our new Chief Financial Officer. The nomination was pending before Congress at that point, and I asked our congressional people to make sure Congress understood the importance of getting a new Chief Financial Officer in place.

In retrospect, I probably should have advised the committee, once we began to see these numbers going up, but I wanted to make sure I understood properly what was going on and what the implications were.

Ms. Guillermin arrived in October, mid-October. She immediately went to work on this problem, notified me there might be a problem, spoke to me—I was actually on a brief vacation at the beginning of November—and upon receiving that information I made the decision first to pause and at the same time to brief this committee—as soon as I had a full understanding of the nature of the problem I believe we came up here.

## MANAGEMENT OF THE TRUST

Senator BOND. Mr. George, your testimony indicates that the Corporation did not respond until it realized that the CR prevented them from budgeting funds for the Trust. Are you implying that if the CR did not occur we may not have found out about the problem?

Mr. GEORGE. That is a possibility, Senator, yes.

Senator BOND. Mr. George, your testimony states that your investigation found that Trust liability projections were not being made by Trust staff but by a senior-level official in the Corporation's executive office. I understand this investigation is going on, so I will not ask you to name names, but can you tell me about the position of the senior-level official in the Corporation's executive office? In your opinion, was it appropriate for this official to be in charge of the Trust liability projections?

Mr. GEORGE. The person held the position of the Coordinator of National Service Programs, and under the position description of the Trust's Director, it was not the Coordinator's responsibility to make that call, so the answer is, while input, of course, could have been provided, the final decision should have been with the Trust's Director.

Senator BOND. Dr. Lenkowsky, how have you responded to the findings about the involvement of the senior-level official in those projections?

Dr. LENKOWSKY. As you know, Senator, I have reassigned two very senior officials in our organization, one of whom is, as noted in your remarks, planning to retire. Based on the evidence before me I felt those were the actions I could take at that time. I am awaiting the results of the Inspector General's report and the GAO report to determine whether, on the basis of their analysis, there is sufficient cause for further personnel action. I will be glad to discuss any of this with you, since it involves individuals, in executive session.

Senator BOND. Let us know. Let me ask Ms. Guillermin if you could briefly describe the steps that have been implemented to correct the past problems of overenrolling AmeriCorps members.

Ms. GUILLERMIN. We have not had the opportunity to implement the full range of new procedures because we have not gone through the full grant cycle, so as the opportunity arises because of the cycle of the process we are implementing the new procedures.

The procedures will span, going forward, the period that begins with our budget development, 2 years before our fiscal year begins, through to analysis, throughout that time frame. We will during the budget development process perform calculations to determine what the targeted enrollment levels are and the appropriate funding against those levels.

What needs to change in addition to very simple review and oversight procedures is a change in culture, as you mentioned, which includes transparency, involvement of all appropriate areas, and analysis and reforecasting. The changes are very simple and easy to implement, but will require a company changing culture to make effective.

Senator BOND. We wish all of you luck in making those changes. Senator Mikulski.

#### CNCS SENIOR LEADERSHIP

Senator MIKULSKI. First of all, Mr. George, thank you very much for this report. I think it is excellent. It is like you are both a fiscal and management radiologist and I think we all see some very serious issues here.

What is so troubling to me is, both your report, sir, and then the GAO report that we asked for, indicate that there have been inappropriate obligation practices, little or no communication among key Corporation executives, a whole culture of one group not talking to the other, and a lot of flexibility given to grantees regarding enrollments, but no reliability on the number of AmeriCorps participants.

I think there has been a complete lack of leadership here. First, you have to know I am very disappointed in the Corporation's Board. I am very, very, very disappointed in the Corporation's Board.

One of the reasons we established this as a Corporation is so that there could be the best practices from the private sector. That it had to exercise oversight and accountability so it would not run wild, that was number 1, and also to allow creativity and ingenuity. I think the Board has been a bust. I think it has been like Enron goes nonprofit. I think they have exercised no stewardship, no responsibility, no accountability, and if this does not get fixed in the next year I will most respectfully ask President Bush to terminate the Board membership.

I am truly serious, because we cannot, as appropriators, be the kind of watchdogs and stewards that we would like to be, so that was the whole point of establishing the Board. There were so many questions about National Service when it started that we felt the Board would be the proper balance of good business practices, sound financial accounting and stewardship, and it has been a B-U-S-T, and I think there has been a lack of leadership on the Board.

Second, I am not going to pinpoint here, but I think there is a lack of leadership in Headquarters culture. There is a huge lack of communication. The Trust Director's position states that the Trust Director was supposed to be in charge of the Trust, but the person in charge of the Trust was like a day-to-day accountant rather than a Trust manager, and I do not get a sense that everybody gets into the same room, or the same virtual room, because of data, to really be able to stand sentry to be sure we are getting taxpayer's value for taxpayer's dollar but we are not violating the law.

So I again think if this leader, if there is not a change in culture and a change in leadership, we then have to look at where we are going, Mr. Chairman. I think this is the most serious we have come to, so I have a series of questions, but I feel very strongly.

I would like, with your concurrence, Mr. Chairman, that we take the Inspector General's report, the GAO report and others that are appropriate that have been briefed to us, and we send it to the Board, and we ask the Board to get their act together and get the Corporation's act together, and if not, then we will have to take this to the White House.

That is where the accountability needs to be, along with, quite frankly, Mr. Lenkowsky, you and your team, but I am going to say this to you and your team. I think you really know National Service cold, but we have got real issues here. What I do not understand is how the Corporation approved more positions, and we keep approving positions, but there seems to be no data on why volunteers do not earn an education award and do not use the education

award at all. This should be the very first thing that every year you decide how much money you have got, how much is in the Trust, and therefore how many volunteers you can enroll. Why do you not know this?

#### EDUCATION TRUST MODEL

Dr. LENKOWSKY. We do have a model that forecasts obligations for the Trust that is based on estimates using historical data.

Senator MIKULSKI. But you do not have good data.

Dr. LENKOWSKY. We are getting better. Remember, we have just gone through a first class—

Senator MIKULSKI. But you do not have good data. The model is a bust.

Dr. LENKOWSKY. I think I would like to ask Ms. Guillermin to comment on that. She has been working on the model. My understanding of the situation is that we had one of those garbage-in, garbage-out problems.

Senator MIKULSKI. That is exactly right.

Dr. LENKOWSKY. The garbage, though, was not the model. It was the numbers going into the model. I think the model was basically sound, but I would like Ms. Guillermin to comment on that because she has been looking at that very closely.

Ms. GUILLERMIN. The model has been reviewed, and it operates in accordance with the assumptions that it was built to operate around. What we are finding, given the OMB feedback and now this GAO feedback, is that the assumptions upon which the model were based were erroneous and the model should never have been built around those assumptions at all.

Senator MIKULSKI. So what are you going to do about it?

Ms. GUILLERMIN. We need to modify the model. We need to—

Senator MIKULSKI. We need to, but what are you going to do about it, when are you going to do it, and how will you know that the model is accurate? I need urgency, urgency, urgency here.

Ms. GUILLERMIN. Yes, ma'am.

Senator MIKULSKI. I need passion. I need from you all such an outrage. Do you have the outrage?

Ms. GUILLERMIN. We have the outrage and we are exhausted from spending many, many hours on this issue over the past 6 months. We have implemented new procedures. We have changed the culture. We are determining, because as you have noted there have been a number of different opinions as to what the right accounting is, when the obligation should go into effect, and how much that obligation should be, and we can implement immediately—we have the GAO report as of yesterday and can implement today the recommendations that they have made.

Dr. LENKOWSKY. May I just add to that? As I said in my opening statement I think there is deep and profound anguish over what has gone on and a determination to change it on the part of senior leadership and on the Board itself. I speak for my chairman in this, that he, too, realizes the Board has not been implementing effective oversight, and we are making steps to change that, including regular metrics for the Board's use at each Board meeting.

Now that we have both the IG and the GAO, now that OMB has weighed in, what we intend to do is determine once and for all

what the proper legal standard is for developing obligations. We actually spoke a little bit about this at last year's hearings, as you may remember, Mr. Chairman. Once we get that down, we will get that right in place immediately—

Senator MIKULSKI. Well, when are you going to get it down?

Dr. LENKOWSKY. Now that we have those reports in we are going to move with all deliberate speed to get this down.

Senator MIKULSKI. Can I have a due date?

Dr. LENKOWSKY. I think what we need to do is get OMB, GAO, our Appropriations Committee—

Senator MIKULSKI. That is a process answer. I want a due date. I am done with process.

Dr. LENKOWSKY. Yes, I think I can give you a due date. I believe our first round of grants for 2003 is scheduled to be made at the beginning of June, and everything will be in place before then.

Senator MIKULSKI. Well, we want the legal definition to this committee by Memorial Day.

Dr. LENKOWSKY. Fine.

Senator MIKULSKI. Mr. Chairman, you have been generous, so I will wait for a second round.

#### RELATIONSHIP WITH FREEDOM CORPS

Senator BOND. Thank you, Senator Mikulski. We will note the June 1 date. I would say that we will certainly forward this information, along with our opening statements, to the Board. We will also forward them to the White House.

I would tell you I have been getting regular calls from the White House, because the President does support the concept very strongly, and I have told him, I have told the representatives of the White House the concerns we have. We will share this with them, and I expect we will all be hearing a lot more from them, but with all the respect I have for the White House and all of the wonderful members of the Board, they ain't going to get no more money until we get the thing cleaned up, so that just happens to be my opinion. Now, somebody may beat me on the floor, but I doubt it.

Dr. Lenkowsky, the Corporation plays a significant role in supporting U.S.A. Freedom Corps. The budget justification for 2004 indicates that collaboration will continue with U.S.A. Freedom Corps, but there are no details. Besides the mainstream AmeriCorps programs, what other activities, what amount of funding does the Corporation expect to provide in supporting U.S.A. Freedom Corps initiatives? Do you expect to fund the President's Council on Service and Civic Participation? What are you going to do? Where are you going to spend the money, please?

Dr. LENKOWSKY. Senator, we work very closely with the Freedom Corps, which as you know is a White House Coordinating Council aimed at implementing the President's call to service. Everything we do with the Freedom Corps is completely consistent and, indeed, adds to the value of the Corporation's own programs within that larger context.

In our operating plan which we have submitted to this committee we have identified—I think it is a good thing to ask us to identify this and I am glad we have now established that procedure—the items that we expect to spend on Freedom Corps in 2003. They do

include the Council. They will include support for the 800 number, the web site, things like that. They will include some collaborative research efforts aimed at gauging some of the motivations that may or may not affect the willingness of Americans to volunteer.

As we go forward in 2004, we would expect to do exactly the same with you, which is to identify within an operating plan context what items within our budget will be part of our collaborations with Freedom Corps.

Senator BOND. If you expect to get the money for this collaboration in 2004 we do not want to wait until sometime in 2004, after we pass the budget, to get your operating plan. We need to know now what you plan to do, how you plan to support it, where you plan to spend the money. This should be part of your budget submission to us so we know what you plan to do. Just telling us you are going to collaborate does not get it.

Dr. LENKOWSKY. We will provide that information to you as we know it. As you can appreciate, Senator, in the course of the year, especially with the new effort like the President's call to service, there are things that are developing, but I think we have established the procedures so that as soon as we are aware of potential collaborations we will make sure this committee is.

#### FISCAL YEAR 2004 CHALLENGE GRANT REQUEST

Senator BOND. Well, if you want us to fund them, you need to tell us about them in the process.

My last question, Dr. Lenkowsky, on challenge grants. We provided in the 2003 budget \$6 million for new challenge grants because we think that having you decide among all of the worthy recipients is the best way to do it. We provided funds in response to huge demands and earmarked requests from Teach for America, Girl Scouts, National Mentoring Partnership, to name a few.

I am very disappointed the administration zeroed out this program and instead added a new earmark of \$3 million for Teach for America. Why do you not want to be able to make the judgments on how the work of these many worthwhile groups will best complement the objectives of the Corporation for National Service, and does this mean now that OMB, which criticizes Congress for earmarking, now OMB believes that we should be earmarking? Do you know what is going on there?

Dr. LENKOWSKY. I do. I think this was a quirk of the unusual budgeting process we had in the past year. At the time we were putting in the 2004 request we did not have, as you know, the 2003 request in place. Consequently, as we discussed this with OMB we were advised that they did not want to put a number in, not knowing if Congress would have put the \$6 million in. Let me say to you that now that we have the \$6 million in there, we are prepared to work with this committee to put in the challenge grant provision with funding in the future.

I should also add we did issue a request for proposals under the \$6 million challenge grant. The response has been extraordinary. It exceeded our expectation in terms of letters of intent to apply, and we are hoping to make the first awards, and we will be notifying you well in advance of who those awardees will be. I believe



our timetable might even be as early as next month, or perhaps early June, but it is very quick.

Senator BOND. Well, number 1, you knew what the appropriations bill was going to be because you saw the bills. Essentially we did the bills last summer and then we finally got them passed, so you knew what was coming.

Number 2, I have no doubt that the total requested is probably far beyond \$6 million. I would like to know what you see the total is, what your estimate of the worthy ones is, and what you think we should set aside, because we have got to have a number in it. We have got to take money and put it in this Challenge Grant Program to the extent that it really performs a necessary service for the Corporation, and if you can do well through those, it seems to me to be a good idea.

So what is the total, what do you estimate we need, and what do you request for 2004?

Dr. LENKOWSKY. I will be able to give you a better answer to that when we see the proposals. Right now, we do have letters of intent to apply. I do not have in front of me the data. I believe we have shared the RFP with the committee staff. If not, we will, and as soon as we get that information together I will be glad to supply it to you.

Again, with respect to the budget process, I can assure you that in our discussions with OMB the Corporation did emphasize the value of the Challenge Grant Program. We are very excited by it.

Senator BOND. I would like to know how much you can use. My staff did find it on the web, so it did not come from you.

Senator Mikulski.

#### ADMINISTRATION EARMARKS

Senator MIKULSKI. Thank you very much, Mr. Chairman. I would like to follow up on that, because first of all we like Teach for America, but we also note that there is more money in here earmarked by the White House for Points of Light, we understand its historic point of interest to this administration and the role that it has played.

Then we earmarked something for America's Promise, which was started by General Powell, now Secretary Powell. There is very little anecdotal evidence that this has had very much traction. I am not a real enthusiast of America's Promise, only because I do not know what it has done. I am not going to argue with it. I would argue why should they get \$7.5 million, but let's go to the challenge grants. How many proposals did you get?

Dr. LENKOWSKY. Right now we are at the stage of the process where we are soliciting letters of intent to submit proposals.

#### CHALLENGE GRANT PROPOSALS

Senator MIKULSKI. But you said it was overwhelming.

Dr. LENKOWSKY. We have received 60 of them. At last count from the program officer responsible, she told me she had 60 letters of intent to apply. I believe that is the stage we are at.

Senator MIKULSKI. Okay, so that would be 60, and then roughly what were they applying for?

Dr. LENKOWSKY. I believe the minimum grant we are going to give is \$500,000.

Senator MIKULSKI. And what is the maximum?

Dr. LENKOWSKY. The maximum grant level is \$3 million. I am also told, by the way, that many of these are organizations that are not otherwise engaged in working with the Corporation, so we are really reaching out.

Senator MIKULSKI. Well, let us go back, then, to the intent. Well, so just using this sum already, Mr. Chairman, we are talking \$20–30 million.

Senator BOND. If you only gave half of them——

Dr. LENKOWSKY. If they only applied for half, it is probably \$20–30 million.

Senator MIKULSKI. That is exactly right, and if you recall last year, just in our subcommittee, we received \$40 million in requests, and they were all bona fide requests. These were the Scouts, the Boys and Girls Clubs, bona fide track records, and they had a track record for criteria. First of all they were national organizations. They have national organizations with local delivery systems. They therefore came there with their own financial dowry. We were not their bankroll.

The other thing is that they had an organized, systematic way of recruiting and training volunteers that we thought was great. Boys and Girls Clubs do background checks to make sure the kids are safe. We know what the Girl Scouts do. We know what Teach for America does, that they have to be fit for duty to be in the classroom.

So I am glad that you are hearing, they are new, but the whole idea of the challenge grant was to do this. Number 1, get us out of the earmark business so that we did not all come with our teachers' pets. I have some of my own, so does Senator Bond, et cetera, so that earmarks were not based on, who is our teacher's pet.

We all agreed Teach for America was a teacher's pet, but at the same time our criteria was that these were national in scope but local delivery, and yet we could count on them for the way they recruited, screened, and trained volunteers, that there would be a consistency, not necessarily uniformity, because we want responding to the local context, but there would be consistency in those volunteers so we could have confidence in them.

So it was to get us out of the earmark business and it was putting us into helping these groups of national scope, coming with their own matching funds, and they had that infrastructure. I would hope we would stick to this and not think about breaking new ground. Was that your understanding?

Dr. LENKOWSKY. That is exactly our philosophy. We are very excited——

Senator MIKULSKI. I am not talking about philosophy. I am talking about real criteria here.

Dr. LENKOWSKY. Yes. We are beginning the review process now and I think——

Senator MIKULSKI. Is that your criteria?

Dr. LENKOWSKY. Those will be the criteria.

Senator MIKULSKI. Is that currently your criteria?

Dr. LENKOWSKY. I think those criteria are stated in the RFP, and again we will make that available for you if you do not have it.

Senator MIKULSKI. No, I want you to know what your own criteria is.

Dr. LENKOWSKY. Oh, they are certainly my criteria, absolutely.

Senator MIKULSKI. So you see what the intent was, and I believe the criteria—I think as a National Service expert, would you agree that that is the sound criteria for challenge grants?

Dr. LENKOWSKY. Absolutely.

#### FINANCIAL MODEL: LARGE CAP, MID CAP, IPOs

Senator MIKULSKI. Okay. Now, let us go to something else. They were meant to be for large caps.

Dr. LENKOWSKY. That is right.

Senator MIKULSKI. Okay. These were—when we looked—to use a financial model, the large cap, the mid cap, and the IPOs, the large cap were these national groups to be dealt challenge grants. The money that goes to States that Governors would be mid cap. Then we had what we call the IPO. These were the small start-up groups that through, hopefully, a Board exercising due diligence in your professional capacity would identify small groups that were the Teach for America of a decade ago, the City Year of a decade ago. Now, where are we with that \$4 million? Where are you with that, and do you agree that that is the criteria that is meant to be identifying small groups that are emerging? Will you even want to test it to see, are these the groups of the future, so that they can then go to a Governor, go to a United Way, et cetera?

Dr. LENKOWSKY. I agree completely. We received a letter from you, Senator, and from the chairman a few days ago. I immediately convened a meeting of our program staff. We had that meeting yesterday and began to work on this. Obviously, there is going to be a lot of outreach involved, a lot of technical assistance. There are a number of questions we had which I believe our Congressional Affairs Office will be discussing with committee staff about such things as can we use some technical assistance money within that grant amount to help nurture some of these start-ups.

Senator MIKULSKI. We want to know what you think, though.

Dr. LENKOWSKY. I agree completely with your philosophy.

Senator MIKULSKI. Well, what do you think we need to do—

Dr. LENKOWSKY. I think we need to—

Senator MIKULSKI [continuing]. And do you think, number 1, is it worth the \$4 million public shot, and what do you think it ought to be?

Dr. LENKOWSKY. Well, as we discussed—

Senator MIKULSKI. What does that Board think it ought to be?

Dr. LENKOWSKY. The Board has not had an opportunity to review this yet, again, because this came in the 2003 appropriation. We have not had a Board meeting since then.

Senator MIKULSKI. Well, what do you think about it?

Dr. LENKOWSKY. We will be reviewing it in May.

Senator MIKULSKI. What do you think about it?

## OUTREACH TO ORGANIZATIONS THAT SERVE IMMIGRANT POPULATIONS

Dr. LENKOWSKY. I think that what we need to do is identify areas or kinds of organizations where we ought to be reaching out and seeing whether—for example, one I mentioned, we have got a lot of new immigrants in this country.

Senator MIKULSKI. Right.

Dr. LENKOWSKY. And it is not obvious to me—I have met with a couple of groups—that the traditions of service, if you will, are as well-established in immigrants from countries where there was not that tradition, and so what I suggested, as our program staff begins to work on this, we identify a couple of specific areas, proactively go out, go talk to existing organizations, talk to experts in the field, see where the needs are, and then see what we can do to help nurture, if it needs to be nurtured, a new generation of service.

Let me give you one example that we already did which is a little bit—it is not quite a new organization, but I think it is close in concept. Early in my tenure I visited a remarkable organization called ACCESS. It is the Arab Community Center for Economic and Social Services in Dearborn, Michigan. It is a settlement house for Arab Americans and, as you probably know, there are more Arab Americans living in the Detroit area than in any part of the world except the Middle East and France, and it was a wonderful operation.

Senator MIKULSKI. What is it doing?

Dr. LENKOWSKY. It is a settlement house, so it does everything from teaching English to people seeking jobs, health services—one thing the settlement—

Senator MIKULSKI. Could I interrupt? First of all, we certainly do want to reach out to Arab Americans and to the new immigrant populations, but is this, by going to this settlement house, the potential for a national movement here?

Dr. LENKOWSKY. Well, that is exactly what we have already done. In advance of this grant they came in and successfully received a grant to replicate in a few other communities what they were doing successfully in Dearborn, and that is precisely the philosophy that we will be—

## BOARD OF DIRECTORS

Senator MIKULSKI. Okay. I do not mean to be brusque, but my red light has been flashing for some time. I just want to say this. I am really frustrated, and what I feel is that Senator Bond and I have been the Board. We have come up, working with you, with the idea of the challenge grants, we have come up with the seed grants, we then have to give guidance and criteria—I feel like we have been the Board.

Now, the people did elect us in many ways to function, but I am very frustrated. That is what a professional staff is supposed to be doing, that is what a Board of Directors is supposed to be doing, and if we are going to be the Board, then we will be the Board, and then you do not need a Board, and I am pretty hot about this.

Senator BOND. Thank you very much, Senator Mikulski. I would just point out that there should be criteria in a sense for the na-

tional challenge grants, since it was requested in 2003, the \$6 million was in response, I guess, to a \$10 million budget request, so it should not come as a surprise to anybody that there is a program that needs to have grants, and I would also second what Senator Mikulski had to say about what great performance we are seeing from Teach for America. We wonder why that had to be earmarked, why the Corporation was not taking care of it, and I will be quite honest, I have heard nothing but questions about America's Promise and what it is actually accomplishing, so we are going to be taking a look at those.

#### ADDITIONAL COMMITTEE QUESTIONS

Well, we do have a number of more questions, obviously that we will have to submit for the record. We have another part of this hearing. We thank you very much, Dr. Lenkowsky, Ms. Guillermin, and Mr. George, and I guess we will be seeing lots of you in the weeks and months to come. Thank you.

Dr. LENKOWSKY. Thank you very much, Mr. Chairman.

Mr. GEORGE. Thank you.

[The following questions were not asked at the hearing, but were submitted to the Corporation for response subsequent to the hearing:]

#### QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

##### ACCOUNTABILITY

*Question.* In Mr. George's testimony, he "found that Trust liability projections were not being made by Trust staff, but by a senior-level official in the Corporation's Executive Office."

Dr. Lenkowsky, it is clear that this "senior-level official" should not have been making Trust liability projections. How have you responded to this finding? Have you taken any disciplinary action? Will you take disciplinary action if the IG or GAO investigations identify more problems?

*Answer.* The "senior-level official" held the position of Director, Office of Planning and Program Integration. A career government employee, he was reassigned in November 2002 to the staff of the Department of Research and Policy Development and retired at the beginning of May 2003. The Office he headed has been eliminated and Trust liability projections are now the responsibility of the Chief Financial Officer.

I have already advised the IG that I intend to take additional personnel actions depending upon the outcome of that investigation. I will also act upon any findings or recommendations that emerge from the GAO investigation.

##### USA FREEDOM CORPS

*Question.* The Corporation plays a significant role in supporting the USA Freedom Corps' activities. The Corporation's budget justifications for fiscal year 2004 indicate that "collaboration will continue with USA Freedom Corps." However, there are no details.

Besides the mainstream AmeriCorps programs, what other activities and what amount of funding does the Corporation expect to provide in supporting USA Freedom Corps initiatives? For example, do you expect to fund the President's Council on Service and Civic Participation? If so, how much money do you expect to provide to the Council in fiscal year 2004?

*Answer.* The Corporation participates in activities related to National Service jointly with other agencies, which are many times, coordinated through the USA Freedom Corps (USAFRC). In 2002, the Corporation spent approximately \$371,000 on such activities, which include co-sponsorship of a toll-free number which directs potential volunteers to the National Service Programs and publishing of the Record of Service Journal, which allows volunteers to record their lifetime service experiences. In 2003, the Corporation plans to participate in a number of activities coordinated through USAFRC as well as a number of activities in which USAFRC is nomi-

nally involved. These include continued sponsorship of the toll-free number and websites, the White House Task Force on Disadvantaged Youth, the White House Forum on Civics, History and Service, as well as the President's Council on Service and Civic Participation. While USAFC participates in the President's Council, it is important to note that the Council is housed at the Corporation pursuant to Executive Order 13285. The direct costs of these programs total approximately \$740,000.

In 2004, the Corporation will continue to participate in activities in which USAFC is involved. However, these items are included in the Innovation, Assistance and Other Activities funding stream (H Funds), the level of which has yet to be determined by the fiscal year 2004 appropriations.

#### PERFORMANCE MEASURES

*Question.* The fiscal year 2003 appropriations bill directed the Corporation to establish performance measures for each grantee, require each grantee to submit a correction plan should the grantee not meet the measures, and reduce or terminate any award where the grantee does not meet the performance plan.

Please tell us how you have implemented these directives.

*Answer.* In 2002, the Corporation launched a major initiative to work with applicants and programs to strengthen the accountability and performance of organizations receiving funds under the National Service laws. The Corporation restructured its evaluation office, creating a new Department of Research and Policy Development (RPD) reporting directly to the Chief Executive's Office. RPD is leading an intensive effort to measure the performance of federally funded community service programs. The performance measurement initiative will take several years to fully implement, and will provide an ongoing assessment of the short- and long-term effects of community service on volunteers, host organizations, individual beneficiaries and communities. This initiative is essential to enable the Corporation to fulfill its mission of achieving direct and demonstrable results. The Performance Measurement Initiative affects all programs under the Corporation's umbrella: AmeriCorps (AmeriCorps\*State and National, AmeriCorps\*VISTA and AmeriCorps\*National Civilian Community Corps) and Senior Corps (Foster Grandparents Program, Senior Companions, and the Retired and Senior Volunteer Program); and Learn and Serve America (school- and community-based programs for young people).

The Corporation's Performance Measurement Initiative has six major components:

1. *Department of Research and Development (RPD).*—In 2002, the Corporation's CEO, Leslie Lenkowsky, created a Department of Research and Policy Development, which absorbed the old evaluation division and assumed a broader mandate to link program evaluation to policy design. At the heart of RPD's mission are (1) monitoring and evaluating program expansion and developing policy-relevant research to assure accountability, quality and continued innovation in policies and programs; and (2) documenting compliance with the Government Performance and Results Act to encourage a culture of outcome-based management.

2. *Comprehensive Review of the Corporation's Performance Measurement Systems.*—To lay the foundations for this initiative, the Urban Institute, a leader in the field of performance measurement, completed a review of the Corporation's performance measurement systems and provided recommendations for improvement in July 2002. The report identified several weaknesses in the Corporation's performance measurement system including: few programs had performance indicators in their budget estimates or performance plans and many indicators that did exist were designed to measure outputs (statistics) rather than outcomes and results. The Urban Institute recommended that the Corporation revise this performance measurement system to make them more results oriented and require grantees to identify specific performance indicators to track their performance. The Corporation has adopted the report's recommendations and is revising the performance indicators and requiring grantees to identify specific indicators on which they will collect regular data to report on their performance beginning with applications filed in fiscal 2003.

3. *Development of Internal Performance Measures.*—RPD is leading the effort to implement performance measures within the Corporation, as well. Each major program and department, from Congressional Affairs to RPD itself, has devised outcome indicators to help department heads manage for performance. In developing the Fiscal Year 2004 Budget, the Corporation completed the new Program Assessment Rating Tool (PART) for the AmeriCorps program, and currently is implementing reforms to address finding and recommendations to improve the program's effectiveness rating.

4. *Performance Measurement Requirement for Grantees.*—Each grantee (and sub-grantee) is now required to identify 3–5 performance measures and then collect, in a regular and systematic way, the quantitative data for those measures. Under the

new protocol, short- and long-term outcome measures are required. In addition, service programs are required to report the data to the Corporation. Under the new management system, each of the three principal actors in a service setting will assess the others. These three actors are the service-corps member/volunteer, the non-profit administrator overseeing the volunteer, and the beneficiary of the service. Their collective feedback will count in funding decisions.

*5. Creation of a Performance Measure Toolkit.*—The Corporation contracted to develop a Performance Measurement Toolkit to help grantees understand performance measurement concepts, provide information on how performance measurement can be applied to National Service programs, and help potential applicants for funding respond to the performance measurement requirements of the application process. The toolkit was completed in late 2002 and disseminated to the field in early 2003. The toolkit also contains an explanation of how to use a logic model to structure National Service programs, identify the key program elements that must be tracked to assess the program's effectiveness, and improve program planning and performance by identifying the ways to measure program results and areas for improvement. The Corporation also provides training and technical assistance on performance measurement to all Corporation program staff, State commissions, organizations receiving funding, and organizations interested in submitting an application for funding.

*6. Introduction of Performance-based Grant Making.*—Rather than spreading service funds around and hoping that the outcome will be good, the Corporation will tie future grants to documented performance. Low-performing grantees that are unable to improve will not have their grants renewed. First-time applicants will have to provide the Corporation with a solid, workable performance-measurement plan. Equally important, performance data will be shared with the public, including beneficiaries and prospective volunteers, to spur improvements by programs.

This year we are devoting approximately \$3.8 million in contract support to strengthen program measurement at the local level, to develop standard instruments that local organizations may use, to provide training to local organizations, and to collect certain basic data concerning the impact of these programs.

In addition to these amounts, a significant percentage of staff time at the Corporation is devoted to monitoring and assessing the impact of local programs, as well as providing support in how to implement performance measures. This staff time does not represent additional costs, but is a shift in focus. We think this shift is justified and is critical to strengthening national and community service programs.

#### SUSTAINABILITY

*Question.* Last year, I raised the question about sustainability because of my concerns about the Corporation funding the same organizations every year.

Dr. Lenkowsky, how have you addressed sustainability, especially in terms of reducing grantee reliance on Federal funds?

*Answer.* The Senate Appropriations Committee, Subcommittee for VA/HUD-Independent Agencies, in action on the budget for fiscal year 2003, directed the Corporation for National and Community Service to provide a report that details its efforts to measure a grantee's reliance on Federal funding and to reduce grantee reliance on Federal funds both in terms of total Corporation resources provided to grantees, and as a percentage of grantee operating costs.

This report was submitted to the subcommittee in May, 2003. In general, the Corporation is committed to supporting programs that are sustainable and has made a number of recent policy changes to achieve the objective of reducing reliance on funding (other than education awards) from the Corporation. These policy changes are described in detail in the attached report.

#### "CHALLENGE" GRANTS

*Question.* The fiscal year 2003 appropriations bill provided \$6 million for a new challenge grants program. We provided funds for this new program in response to the huge demand of earmark requests from groups like Teach For America, Girl Scouts, and the National Mentoring Partnership, to name a few. I am disappointed that the administration zeroed out this program and added a new earmark of \$3 million for Teach for America.

Can you give me a status of this year's challenge grants program? How many applications have you received and how many do you expect to fund?

*Answer.* The Challenge Grant Notice of Funds Availability (NOFA) was printed in the Federal Register on March 25, 2003 with an April 10, 2003 deadline for applications. We received 53 applications. During the first stage of the review process,

the compliance review, we determined that 38 applications were compliant and these were sent to the first round of review. Most of the non-compliant applicants had an insufficient match.

Thirty-eight applications were reviewed in the first round of review. Twenty-one were sent to the next round of review which is currently in progress. With \$6 million in the 2003 appropriation, and a minimum request of \$500,000, we can make up to 12 grants. The CEO will receive the final recommendations of the review committee in early June and plans to notify the Senate and House Appropriations Subcommittees on VA/HUD and Independent Agencies by the third week of June, prior to the notifications going to awardees.

*Question.* Regarding Teach for America, I understand that despite their great performance, they continue to receive the same level of funding year-in, year-out. If an organization like TFA is performing well and is experiencing a greater demand for its program, why is it not able to receive more funds?

*Answer.* Teach for America has done an excellent job of leveraging its AmeriCorps funding with significant private and non-Federal support. In 2002, about 10 percent of its total operating budget comes from the Corporation (\$1.6 million). In addition, every member of Teach for America is eligible to earn an education award. As demand for the program grows and it enrolls more members, the Corporation commits more funding for these awards. In fiscal year 2002, Teach for America received \$19.7 million in private support from corporations, foundations and individual giving and events which represents 74 percent of TFA's total revenue.

With regard to Corporation support in previous years, Teach for America received the following Corporation grants between 1994–2002:

1994–1998:	
National Direct Programs .....	\$8,433,000
1999:	
National Direct Programs .....	1,433,000
2000:	
National Direct Programs .....	1,632,970
2001:	
State Competitive Programs .....	269,230
National Direct Programs .....	1,725,400
Subtotal .....	1,994,630
2002:	
State Competitive Programs .....	268,921
State Formula Programs .....	100,000
National Direct Programs .....	2,798,201
Subtotal .....	3,167,122
Total .....	16,660,722

#### COST ACCOUNTING SYSTEM

*Question.* For several years, I have asked the Corporation to develop a cost accounting system so that we can have actual cost data on its programs and grants. Last year, PriceWaterhouseCoopers (PWC) assessed the Corporation's implementation of its new cost accounting system and it recommended that the new system is refined to calculate cost per grant or cost per grant dollar.

What is the status of your new cost accounting system? When do you expect to be able to provide us with actual cost data on your programs?

*Answer.* During fiscal 2001, the Corporation implemented a cost accounting application that enables the Corporation to track and report expenses by major program. The Statement of Operations and Changes in Net Position contains comparative expense information by program. This application is the mechanism by which the Corporation determines the total cost to operate each of its three major programs: AmeriCorps, Learn & Serve, and National Senior Service Corps. Support and administrative costs are allocated to each of the programs based on a systematic and rational cost driver. During fiscal 2002, an independent contractor, PriceWaterhouseCoopers, determined that the Corporation's cost accounting application is in compliance with the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards Number 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*. This accomplish-



ment places the Corporation ahead of many Federal entities in achieving compliance with the cost accounting standard.

In 2002, we implemented recommendations from PWC to add functionality to the model to calculate the administrative cost per grant or administrative cost per grant dollar so that we can monitor and measure improvements in administrative cost management over time. These changes, coupled with full implementation of the eGrants system (expected in late 2003) will allow the Corporation the first opportunity to fully apply the new model to reliable data and perform cost accounting on our actual experience.

#### LEVERAGING MORE VOLUNTEERS

*Question.* The Corporation added a new criterion in its AmeriCorps application process that takes into account the leveraging of additional volunteers. I am a big supporter of this because I believe the AmeriCorps program can be more effective by focusing more on “wholesale” activities instead of “retail” activities.

Please provide an update on how you have addressed this matter.

*Answer.* A fundamental purpose of AmeriCorps is to help recruit, support, and manage the networks of volunteers assisting nonprofit organizations in meeting community needs. By creating volunteer opportunities and helping organizations to effectively engage volunteers, AmeriCorps programs multiply their impact, build organizational capacity, and support the development of sustainable programs. Volunteering also provides an ideal opportunity to bring together people of many racial, ethnic, and religious backgrounds around a common goal and to foster the active citizenship upon which the health of our democratic system depends.

We have increased our emphasis on supporting programs that engage volunteers in their activities. Accordingly, our guidelines for the 2003 award competition state that successful applicants will be those that address how their AmeriCorps program will effectively engage and support volunteers in meeting community needs and staff reviewing applications have been asked to report on proposed uses of volunteers.

The Corporation is also developing a process to standardize reporting procedures for volunteer leveraging and create uniform definitions for counting community volunteers and across programs. We will develop these measures in consultation with grantees. For example, the Corporation is interested in creating standard definitions or categories of community volunteers based on the level of service they contribute. We are also exploring a standard approach to assessing AmeriCorps members' involvement in or contribution to the recruitment of volunteers.

Although programs will have the flexibility to determine the best approach to volunteer recruitment and management based on their program design and local characteristics, all programs are expected to include volunteer recruitment as one of their 3–5 performance measures. We understand that not every program may be able to meet this requirement, particularly in the first year. If a program is unable to include volunteer recruitment and management, they are required to include an explanation in their application. We will consider volunteer recruitment (and/or the explanation for not including this element) during the grant application review process.

#### REAUTHORIZATION

*Question.* Both Senator Mikulski and I sit in a unique position to address the policy and programmatic issues of the Corporation since we both sit on its authorizing and appropriations committees.

Do you expect to submit a reauthorization bill this year? Do you have any specific legislative proposals that would help strengthen the Corporation's management practices?

*Answer.* We have had indications of intent, from the House and Senate authorizing committees, to introduce reauthorization bills during this Congress. We anticipate that both bills would use HR 4854, passed by the House Education and the Workforce, Subcommittee on Select Education in the 107th Congress, as the basis for their bills this year. Among the management-strengthening measures included in HR 4854 are:

- Emphasis on establishment of grantee performance measures including corrective action or termination for noncompliance.
- Requirements to contain costs by capping grant costs per member.
- Transfer of the Education Award Program from Subtitle H to C to make it an ongoing program of AmeriCorps. Including it in the grants program would provide additional flexibility managing all aspects of the program.

HR 4854 also included two provisions that would strengthen the oversight of the Board of Directors of the Corporation. The first provision would allow Board members to serve until a successor is appointed and the second would establish a standard 5-year term for Board members. The Board has also expressed an interest in having authority to direct some staff at the Corporation; however, such direct authority would require a change in statute.

#### LITERACY

*Question.* I am a big supporter of child literacy mentoring and tutoring programs. How much funding support currently goes to the Corporation's literacy initiatives and what kind of results are we seeing?

*Answer.* The Senate Appropriations Committee Report, in action on the budget for fiscal year 2003, directed the Corporation to "continue at least the current level of support (\$100,000,000) for programs designed to help teach children to read by the third grade." In fiscal year 2002, the Corporation awarded \$113,987,656 in grants under its AmeriCorps State/National program to programs for which children's literacy is a major focus.

As reflected in the Fiscal Year 2003 Guidelines, programs are required to conduct performance evaluations and report to the Corporation to ensure that Corporation-funded tutoring programs operate in the spirit of the No Child Left Behind Act. These policies are described below in "Guidelines for 2003 Grants" and "Training and Technical Assistance for Tutoring Programs".

These policy changes will significantly enhance the standards by which our programs operate. Additionally, as with all grantees, the Corporation proposes to track the performance of programs whose participants engage in tutoring with the new system of performance measurement, which will be initiated for programs starting in fiscal year 2003. By doing so, the Corporation will establish not only that grantees are operating programs that are consistent with Federal guidelines, but also that the children being tutored actually increase their reading ability.

In issuing 2003 guidelines for funding, the Corporation set forth new policies related to programs that teach and promote reading skills. Beginning with the 2003 grant award process, successful applicants must demonstrate that their tutoring programs address the following criteria:

- Curricula;
- Tutor training;
- Outcomes; and
- Standards for tutors.

After grants are awarded, the Corporation will work with grantees to ensure that all funded tutoring programs make suitable progress toward the goal of increased child literacy. The following provides the sections related to tutoring and child literacy as set forth in the 2003 grant guidelines (entire guidelines are attached):<sup>1</sup>

#### *Overall Statement of Policy*

"A significant percentage of programs supported by the Corporation provide tutoring and other support to assist children in learning to read. The No Child Left Behind Act, enacted by the Congress in 2001, sets new scientifically-based standards for programs in schools across the country. This year with Corporation funding, successful applicants will have to demonstrate that their activities incorporate scientifically-based approaches to reading. Specifically, programs proposing tutoring and other literacy activities should address curricula, tutor training, outcomes, and standards for tutors."

"The Corporation recognizes that there are a wide variety of literacy activities being conducted by AmeriCorps programs, ranging from book drives to one-to-one tutoring programs. The above expectations apply only to those applicants engaged in tutoring or reading instruction in schools and related institutions such as non-profit organizations running after-school programs."

#### *Curricula*

"Your application should describe curricula and tutoring strategies that are scientifically-based and include the five components of reading and reading instruction identified by the National Reading Panel OR demonstrate that the activities you conduct are part of a program in a school under the No Child Left Behind Act that provides individuals with systematic instruction and practice in the five basic reading components."

<sup>1</sup>[CLERK'S NOTE.—This document has been retained in Committee files.]

### *Tutor Training*

"Tutor training should take place both before and during service and give tutors the skills and knowledge to support students' learning of the specific components of reading addressed in the report of the National Reading Panel . . . Programs may also, where appropriate, demonstrate school site participation in training design and implementation and/or evidence of linkages between the instructional program of the tutee's school district and content of tutoring sessions conducted after school."

### *Outcomes*

"Your application should identify student achievement goals and show links between program objectives, tutoring activities, tutor training, and proposed strategies for achieving these goals. Applicants should address the approach they will use to measure outcomes."

### *Standards for Tutors*

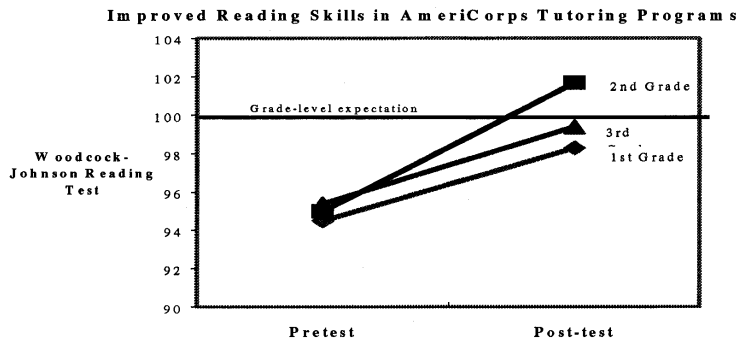
"Your program should identify any standards that you propose to use to qualify individuals as tutors. For example, some programs may screen individuals through a qualifications test; others may require enrollment in, or completion of, a reading course. Still others may require demonstration of certain academic skills, such as completing at least 2 years of college. During the coming year, the Corporation plans to work with organizations and programs to set standards for tutors."

### *Continued Training and Technical Assistance*

"The Corporation will work with successful applicants to provide training and support to achieve effective tutoring programs and to maximize their impact on the individuals being served."

In addition to these guidelines, the Corporation commissioned a study by Abt Associates in 2001 to determine the impact of AmeriCorps literacy program, which is summarized below.

*Well-designed AmeriCorps programs impact early grade reading performance in school and in school readiness.* A study of children in grades 1–3, completed in 2001, found that "students participating in AmeriCorps tutoring programs improved their reading performance from pre-test to post-test more than the gain expected for the typical child at their grade level."<sup>2</sup> In an assessment report from the Evaluation of the Jumpstart Program (2000–2001 National Composite), Shelby Miller, Ph.D. stated that the findings from the evaluation show significant program effects on the participating preschool-age children's language, social, and adaptive skills based on their teachers' assessments. While the program participants began the program year behind their non-participant peers in all areas, their teachers reported that they made significantly more substantial gains during the year than their counterparts.



Source: Abt Associates. 2001. *AmeriCorps Tutoring Outcome Study*.

<sup>2</sup>Abt Associates. 2001b. *AmeriCorps Tutoring and Student Reading Achievement*. Final Report. Cambridge, MA.

## AMERICA'S PROMISE

*Question.* I understand that your [IG] office is auditing America's Promise.

Please tell me about the scope of the audit, audit completion date and report issuance date, and any preliminary findings. Lastly, please tell me how often the Federal Government audits the programs of America's Promise and how the Corporation monitors the performance of its programs.

*Answer.* The Office of Inspector General had originally planned to perform a financial-related audit of Corporation funds awarded to America's Promise. However, the Office of Management and Budget (OMB) requires all Federal grant recipients that qualify as "major programs" to be independently audited on an annual basis. America's Promise qualifies as a "major program" under OMB criteria and, consequently, must perform an annual A-133 audit. In fiscal year 2001, the audit firm Grant Thornton conducted the A-133 audit of America's Promise and noted no matters involving noncompliance or internal control over financial reporting. Furthermore, no matters were noted involving noncompliance or internal control over the major programs that were considered to be material weaknesses.

The Office of Inspector General reviewed the work performed by the Grant Thornton auditors and relied on their conclusions to avoid a duplication of effort. Therefore, our audit focused on determining whether America's Promise appropriately reclassified general costs as grant costs for fiscal year 2001. In addition, our audit examined fiscal year 2002 grant costs to ensure that they were allowable. Our audit was completed on March 17, 2003, and it questioned \$23,432 of salaries, benefits, and travel costs. This amount is approximately .3 percent of the \$7,483,000 of costs claimed under the grant. The questioned costs were incurred prior to the effective date of the award. We also questioned \$911 of interest earned on Federal funds. A copy of our audit of America's Promise is enclosed.

On March 31, 2002, the Corporation issued its Proposed Management Decision and Notice of Final Action on the America's Promise audit. The \$23,432 of costs incurred outside the grant period were allowed by the Corporation because the costs were allowable, related to the project, and incurred in accordance with the proposed budget program. The Corporation also determined that if America's Promise had requested the Corporation's permission prior to incurring these costs, the request would have been approved. America's Promise was informed that it must receive the Corporation's written consent before incurring costs outside the grant period. The \$911 of interest earned on Federal funds was disallowed and repaid.

With respect to your question of how often the Federal Government audits America's Promise, this organization, as noted above, qualifies as a "major program" according to OMB criteria and must perform an A-133 audit on an annual basis. The A-133 audit tests the grantee's system of internal controls to ensure that they are adequate to account for Federal funds. The A-133 audit also tests compliance with grant provisions and the allowability of grant costs.

With respect to your question of how the Corporation monitors the performance of its programs, a Corporation staff member monitors the America's Promise grant as well as other earmark grants. This staff member receives progress reports from America's Promise and performs fiscal and programmatic monitoring.

If I can be of further assistance, please do not hesitate to contact me. I look forward to working with you to achieve our mutual goal of making the Corporation a more efficient and effective organization.

## PERFORMANCE OF AMERICA'S PROMISE

*Question.* Our committee has appropriated well over \$25 million to America's Promise to support their efforts in meeting the needs of at-risk youth.

To what degree has America's Promise been able to meet its goals? What activities does America's Promise support with the appropriated funds (administrative expenses, grants to other nonprofit organizations, etc.)? What is the difference between America's Promise's activities and the Points of Light Foundation? Is there any duplication of efforts between these two organizations?

*Answer.* The Corporation's grant to America's Promise supports operational costs of the organization, including personnel salaries and benefits, contracts to develop technical assistance materials, research and evaluation, travel, and supplies. It does not include any "sub-grants" to other nonprofit groups and all administrative expenses are in areas permissible for Federal grant funds.

America's Promise recently provided Congress, including the subcommittee, with a report that had been requested concerning its activities and accomplishments. This provides a comprehensive picture of the current status of the effort to achieve the "Five Goals" to youth. The Corporation for National and Community Service has not conducted an evaluation of the effectiveness and accomplishments of America's

Promise. However, America's Promise has begun to take a more focused approach to its work, focusing on a limited number of specific communities and building on successful "Communities of Promise." This seems realistic and avoids the diffuse approach that may have characterized early efforts of the organization.

A major difference between America's Promise and the Points of Light Foundation is that America's Promise focuses, as stated in the subcommittee's question, on meeting the needs of children and youth. Citizen volunteer service is one important strategy in meeting these needs through reaching the "Five Promises" to youth identified by America's Promise. The Points of Light Foundation promotes and supports citizen volunteering directed at the entire spectrum of national and community needs including but not limited to those of children and youth. The Foundation supports volunteering by youth, and in support of youth, but the efforts of the two groups complement rather than duplicate one another.

#### MULTIPLE FEDERAL FUNDING SOURCES

*Question.* The Corporation funds a number of organizations that also receive funds from other Federal agencies. For example, Habitat for Humanity and YouthBuild receive funding from both CNCS and the Department of Housing and Urban Development.

How many CNCS grant recipients currently receive funds from other Federal agencies? Please provide me a top ten list of organizations that receive funds from multiple Federal funding sources. Please rank the organizations based on the amount of dollars they receive from the Federal Government.

*Answer.* The Corporation is committed to supporting programs that are sustainable and has made a number of recent policy changes to achieve the objective of reducing the reliance on funding from the Corporation. Funds from Federal sources other than the Corporation may be used as matching funds for the operating costs of AmeriCorps State and National programs. Pursuant to OMB Administrative Requirements, the Corporation requires that verifiable records on match be retained by grantees for audit purposes.

The 2003 application guidelines include a new requirement that nonprofit organizations make available to the Corporation more detailed information about the finances of the organization, including their sources of funding, either through copies of annual financial statements or IRS information returns. However, other than funds claimed as match for its grants, the Corporation does not keep records on the funds that its grantees receive from other Federal agencies.

Should the committee instruct the Corporation to report such information, the Corporation would be required to seek direction from the Office of Management and Budget. However, the Corporation is currently examining alternative data sources for gathering this information. Options include using IRS Form 990 data (Return of Organization Exempt from Income Tax), instituting special surveys, or imposing additional reporting requirements upon Corporation grantees.

We would be glad to discuss this issue further with the committee.



DEPARTMENT OF THE TREASURY

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

STATEMENT OF TONY T. BROWN, DIRECTOR

ACCOMPANIED BY:

LINDA DAVENPORT, ACTING DEPUTY DIRECTOR FOR POLICIES  
AND PROGRAMS

OWEN JONES, DEPUTY DIRECTOR FOR MANAGEMENT AND CHIEF  
FINANCIAL OFFICER

Senator BOND. Mr. Brown, if you will go ahead and take your seat, Senator Mikulski will be back in just a few minutes—she had to make a call—so we will save the important part, like your testimony, for her return. I will get my comments out of the way so we can get on with that.

We welcome Mr. Tony Brown for the second panel. He is the Director of the Community Development Financial Institutions Fund, who has joined us this morning to testify on the President's fiscal year 2004 budget request.

While the CDFI Fund is one of our smallest agencies within VA-HUD, it is responsible for a number of very important programs which are designed to make credit and capital available in distressed rural and urban neighborhoods through financial institutions. In addition, the CDFI Fund is now responsible for the New Markets Tax Credit program, which makes tax credits available for leveraging private dollars and investments in low-income communities.

I am disappointed in the President's budget that only requests \$51 million for the CDFI Fund in 2004. This is a reduction of some \$17 million from the \$68 million requested for 2003 and a reduction of some \$23.5 million from the fiscal year 2003 enacted level of \$74.5 million, and while I understand CDFI's position that this is essentially level funding for the CDFI program, as to the amount of funds that can actually be used in 2004 by CDFIs, I am not convinced that the fund cannot implement reforms that will ensure a more effective use of funds by CDFIs.

I know we have many low-income communities without adequate access to credit and capital, especially communities in rural America and in Native American areas, and without these CDFI resources many of these communities will continue to be economically distressed and stagnant.

I am also concerned about the budget request of only \$8 million for the Bank Enterprise Award Program for 2004. I understand that this reduced funding is consistent with perceived BEA funding needs as new regulations for the program are being implemented. Nevertheless, this has been a very successful program. For example, the Central Bank of Kansas City has used some \$2.4 million in BEA grants over the last 7 years to leverage \$15.3 million for lending activities, and that lending has translated into 282 units of affordable housing, created or saved 525 jobs, and created or assisted some 148 small businesses in the most distressed communities of Kansas City.

The Central Bank has made a tremendous difference in the lives of many low-income families. Nevertheless, I understand that the 2004 funding request of \$8 million for 2004 may mean that the Central Bank will get significantly reduced or no funding, and that any funding provided will not be consistent with its level of commitment to the BEA Program. I do not like to think that we may be turning our backs on successful CDFIs like the Central Bank, and I need to understand why we should underfund these important financial institutions.

I also have some questions about the New Markets Tax Credit program. I know we are asked to appropriate \$13 million just for administrative costs for the New Markets program, and the program itself is responsible for allocating \$15 billion worth of tax credit investments which will be used to leverage private capital to invest in low-income communities.

I am unhappy, however, that the CDFI Fund is beginning to turn its back on funding CDFIs with their mission of making capital and credit available in distressed communities. This is a vital need that the New Markets program will not meet. Instead, the New Markets program is so broadly defined that the eligible communities include 32 percent of the U.S. population and nearly 40 percent of the land area. I am not sure how the CDFI Fund will be able to ensure accountability, exercise oversight, or measure success. We are going to need answers for all those concerns.

Finally, I am especially concerned about the fund's effort in addressing distressed communities in rural areas. Many members of this subcommittee share my concern, and I do have many of those communities I have visited throughout Missouri. They are economically distressed, and we work hard to help distressed areas of large cities, but the economic distress in some of the rural areas is even more pronounced and even more hopeless than we find in some of the cities. I would like to hear how the fund plans to continue to address this issue.

I look forward to your testimony, and then I will call on my distinguished Ranking Member for her comments.

Senator MIKULSKI. Mr. Brown, we want to welcome you once again to the committee, but Mr. Chairman, in the interests of time I am going to submit my written statement into the record, but first let me make a few quick points. I am very concerned about the fact that the budget request for CDFI is \$51 million and it is 30 percent below what we funded it at. I am concerned that this is an appropriations request from OMB and not CDFI.

#### PREPARED STATEMENT

Second, we need to make sure we stay focused on the core mission of CDFI to provide capital and credit in underserved markets and low-income communities. I know we have 16, but the New Markets Tax Credit, in implementing it, is not what a CDFI Fund is, so we do not want the discouragement of the new markets, but I agree—there are a lot of flashing yellow lights around here—I would like us to have enough money to do the CDFI core mission, which is a pretty good one, and then in an accountable, transparent way measure how we are doing in implementing the new markets.



I am looking forward to hearing you, Mr. Brown, but I feel like we are getting off the mark and we are getting underfunded, so I am happy to hear what you have got to say.

[The statement follows:]

PREPARED STATEMENT OF SENATOR BARBARA A. MIKULSKI

Welcome Director Brown. This is the second time Mr. Brown has testified before this subcommittee. Unfortunately, each time we see you, the CDFI Fund request gets lower.

For fiscal year 2004, the administration requests \$51 million for the CDFI Fund. This is a 30 percent cut from the fiscal year 2003 enacted level. And it would put the CDFI Fund back at its 1997 level. When I look at the CDFI budget request, I do not see a CDFI Fund request or a Tony Brown request; I see an OMB request. The CDFI Fund has a very important mission. It invests in organizations that are dedicated to improving low-income neighborhoods, and the lives of low-income people.

When I look at the budget for the CDFI Fund, I do not evaluate numbers. It is not about numbers; the CDFI budget has to be about people. There is one increase in the 2004 budget request for CDFI—and it is for administration. I believe that oversight and management is important. But, Federal resources should support people, not bureaucracy. There are 16 CDFIs in Maryland. They are very important to community development in my State. They provide loans for small business development, they fix up storefronts, and they build community centers. They also provide homeownership loans that are not predatory and fraudulent.

On March 6, I asked the HUD IG to investigate a mortgage service agency called Fairbanks. I heard about Fairbanks sending fraudulent foreclosure letters to homeowners in Baltimore. I asked Sec. Martinez and the IG to conduct thorough criminal investigation, share information with other Federal agencies and to act as clearinghouse for victims' calls.

We are waiting for a preliminary report from the HUD IG. What we know for sure is that people who are subprime borrowers are targets for predatory scams. CDFIs provide a safe haven for low-income borrowers. I am very concerned that cuts to the CDFI fund mean cuts to non-predatory loans. I have been involved in the issue of predatory lending and flipping for a long time now. And we have made some good progress in Baltimore, where flipping has gone down by 40 percent. In Baltimore one of our partners in the fight against flipping is the Baltimore Community Development Financing Corporation—they are a CDFI. The Baltimore Community Development Financing Corporation administers the Baltimore HELP program. One of the things I did in Baltimore was to get \$1 million of HUD money for the Baltimore HELP program. That program provides counseling on loans, and refinances predatory mortgages so that people don't go into default. We need more programs like the Baltimore HELP program, not fewer.

The CDFI fund is shifting its focus away from the Fund to administering the New Markets Tax Credit. The Fund recently announced the first round of tax credits totaling \$2.5 billion. Four Maryland groups received awards totaling \$161 million. I believe that the New Markets Tax credits are an important tool in community development. And I am pleased that Maryland will benefit from them. But I do not believe that New Markets Tax Credits are a substitute for the CDFI Fund. Administration of the tax credit program is very important—now is the time to start the data collection, and institute proper program oversight.

I want to hear from the CDFI Fund today about program oversight. And about how this proposed budget reduction will affect communities and people. I want to hear about people, not programs, about advocacy, not accounting. We look forward to your testimony.

Senator BOND. Thank you, Senator Mikulski. I think you summed it up pretty well.

Mr. Brown, as I said, we will make the entire statement part of the record and ask you to summarize your remarks in 7 minutes, and then my colleague and I will have some questions.

STATEMENT OF TONY T. BROWN

Mr. BROWN. Thank you, Chairman Bond, and also thank you, Ranking Member Mikulski. I appreciate the opportunity to testify

before you today on behalf of the Department of the Treasury's Community Development Financial Institutions Fund and in support of the President's budget for the 2004 program. Your remarks were quite direct, and I hope that my opening statement as well as my response to your questions will address many of your concerns.

Joining me today are Linda Davenport, the Acting Deputy Director for Policies and Programs, and Owen Jones, who is the Deputy Director for Management and our Chief Financial Officer.

The President's budget requests a \$51 million appropriation for the CDFI Fund. The proposed budget supports the CDFI program, our Native American CDFI Development Program, the Bank Enterprise Award Program, which are all important facets of the CDFI Fund's community development financing continuum that also now includes the \$15 billion 7-year New Markets Tax Credit program. The administration of the New Markets Tax Credit program is also supported by the proposed appropriation.

The administration's approach for investing in CDFIs revolves around three major and very important strategies. We are focusing our program awards on the Nation's most economically distressed areas. We have established a growth continuum to address our mission of building the capacity of CDFIs. We believe that the strategy of our award decisions will allow awards to be provided to support CDFIs to the point where they can be self-sustaining, thus permitting the CDFI Fund to provide assistance to candidates with unmet needs in other distressed communities.

And third, we are taking actions to obtain the information necessary to measure and report on the impact of the fund's investments. As we talked last year, it is not about the fund's output, but about the CDFI's impact in the communities that they serve. I characterize my visit before you today as filled with a great sense of accomplishment and enthusiasm for the potential of the CDFI Fund. This potential is shared by the administration.

Last year, I shared with you the administration's vision for the fund and stated that fiscal year 2003 would serve as a transition year for the fund where our agency would shift primarily from being seen as a grants-making organization to one that stimulates the economy of low-income communities through target investments for community development finance. The \$51 million appropriation is expected to leverage \$442 million in other private and public resources, which is a leverage ratio of about 12 to 1. The leverage ratio excludes funds appropriated for administrative purposes and does not include data associated with the New Markets Tax Credit program.

Senator Bond, as you indicated, we feel that this appropriation will help support the creation or maintenance of 24,000 jobs and the rehabilitation of over 26,000 affordable housing units. I am pleased to report to you substantial gains in the achievement of our goals for the fund. First, we have made a significant change to the performance indicators included in our budget submission. During fiscal year 2002, the fund completely revamped its performance plan by more clearly identifying our objectives and by identifying outcomes and impacts related to those objectives. It is about people and not about accounting.

The objectives of the CDFI Fund have been simplified to three key statements. The fund invests in institutions whose loans in equity will increase financing to businesses and individuals that we feel have low wealth, have limited collateral, and are located in our Nation's underserved communities.

We invest in institutions which expand the supply and quality of affordable housing units in underserved communities and increase home ownership rates in those markets and among targeted populations. The fund invests in institutions that expand access to affordable financial services for the unbanked, low-income people and others in underserved communities.

Also, in fiscal year 2003 we simplified and substantially revised the fund's investment program offerings. The financial assistance components you have formally known as Core and SECA have been simplified, and it is our primary program of investments that allow CDFIs to apply for financial assistance and technical assistance awards. The technical assistance component of the CDFI Fund Program also includes our Native American technical assistance component, and allows CDFIs to apply for technical assistance awards where a match is not a requirement, and the BEA Program, through which insured depository institutions may apply to receive grants, enables the fund to provide incentives to regulate institutions to support community development lending and investment activities.

As my written testimony notes, in fiscal year 2002 the administration initiated extensive and substantive regulatory changes to the BEA Program that takes effect this fiscal year. We began implementation of these regulatory changes prior to OMB's evaluation of the BEA Program. We feel these changes address the critical evaluation of the BEA Program by OMB, which requested and required that we seek clear program objectives that distinguish the BEA activities from the mandates of the Community Reinvestment Act. The administration fully supports the continuation of the BEA Program.

Quickly, the major successes this year. The fund, through new systems improvements, was able to significantly improve the rate at which we approve and disburse funds to our awardees. Fiscal year 2002 also marked the fifth consecutive year in which we were able to maintain our unqualified audit opinion with no material weaknesses, nor reportable conditions, nor instances of noncompliance with laws and regulations.

The CDFI Fund is making great strides in its efforts to increase the capacity of CDFIs to respond to credit, investment, and financial service needs within our Native American, Alaska Native, and Native Hawaiian communities. As you requested last year, the CDFI Fund is preparing a Native American strategic plan that will address the issues of CDFI reach and service to Native American, Alaska Native, and Native Hawaiian communities.

And finally, in fiscal year 2002 and 2003 the CDFI Fund evaluated 345 applications to the New Markets Tax Credit program. These applications together requested the authority to issue nearly \$26 billion in equity for which new markets tax credits may be claimed. Last month, Secretary Snow announced the allocation of

new markets tax credit authority to 66 community development entities at a special event in Ohio.

The allocatees received a total of \$2.5 billion, and they represent a broad cross-section of community development entities. They are both large and small community development entities. They are affiliates of nonprofits, as well as for-profit entities, and these community development entities will focus locally as well as nationally, and they will focus on both rural as well as urban locations.

The majority of allocatees will focus on either business investments and loans in real estate, or they will do—I am sorry, let me clarify that.

The majority of allocatees will focus on either business investments and loans, or real estate investments and loans, and a smaller number will make investments in other community development entities as well as purchase loans from other community development entities.

#### PREPARED STATEMENT

The CDFI Fund is now poised to use the Nation's extensive network of community development financiers and developers to help develop sustaining economies in our underserved communities. Our reporting will let you know that this network serves people and communities.

Again, I thank you for the opportunity to present my testimony in support of the President's 2004 budget request, and look forward to answering any questions.

[The statement follows:]

#### PREPARED STATEMENT OF TONY T. BROWN

##### INTRODUCTION

Chairman Bond, Ranking Member Mikulski and Members of the subcommittee, I appreciate the opportunity to testify before you today on behalf of the Department of Treasury's Community Development Financial Institutions (CDFI) Fund and in support of the President's fiscal year 2004 budget. Last year was my first visit before this honorable body.

I am Tony Brown, Director of the CDFI Fund. The Secretary of the Treasury selected me to serve in this post in August 2001. I bring a 20-year prior experience in banking and a personal passion for community development finance. Joining me today are my Acting Deputy Director for Policy and Programs (Linda Davenport) and Deputy Director for Management/Chief Financial Officer (Owen Jones).

I characterize my visit before you today as filled with a great sense of accomplishment and enthusiasm for the potential of the CDFI Fund. Our goal is to help make America a place where all of its people, including those in economically distressed communities, can realize the American dream through better access to credit, capital and financial services. Fiscal year 2003 has been a transition year where the Fund has shifted from primarily a grants-making organization to one aimed at measurably improving the economic conditions of the residents of low-income communities by spurring economic growth and jobs through community development finance.

The CDFI Fund aims to do this primarily through the New Markets Tax Credit (NMTC) Program, the Community Development Financial Institutions (CDFI) Program, the Bank Enterprise Award (BEA) Program, and the Native American CDFI Development (NACD) Program.

My testimony today will focus on three key areas: the President's fiscal year 2004 budget proposal; the CDFI Fund's management and operations in fiscal year 2003; and some background on the CDFI Fund programs.

## PRESIDENT'S FISCAL YEAR 2004 BUDGET

The President's fiscal year 2004 budget requests a \$51 million appropriation for the CDFI Fund. The proposed budget supports the administration of the NMTC Program, the CDFI Program, the NACD Program, and the BEA Program. Because the NMTC Program involves an allocation of tax credits rather than program funds, all costs associated with the development, implementation and monitoring of the NMTC Program are administrative. The \$51 million appropriation is expected to leverage \$442 million in other private and public resources, a leverage ratio of 12:1. The leverage ratio excludes funds appropriated for administrative purposes and does not include leverage data associated with the NMTC Program. This appropriation will help support the creation or maintenance of 24,000 jobs and the rehabilitation of 26,000 affordable housing units. The administration's request reflects the following factors:

First, the NMTC Program is aimed at achieving similar economic development objectives as the CDFI and BEA Programs.

Second, the NMTC Program is vastly larger in scope than the other CDFI Fund programs. The first year NMTC Program allocation authority of \$2.5 billion is some 50 times larger than the entire CDFI Fund request.

Third, the administration currently is considering possible legislative changes to the BEA Program. In the near future, I expect that we will consult with Congress regarding legislative options that would clearly distinguish the program from the mandates of the Community Reinvestment Act and ensure that awardees use BEA Program awards for community development activities. In fiscal year 2002–2003, the CDFI Fund's own internal evaluation of the BEA Program concluded that the program needed to be re-formed so that awards would be better targeted to wealth-building activities and outcome-based performance goals to better track the program's impact would be adopted. The Fund's adopted these regulatory modifications for the fiscal year 2003 funding round.

Fourth, this proposed fiscal year 2004 funding level, reflecting a division of resources, is adequate to continue an effective baseline funding level in each program, particularly in light of the reforms put in place in recent months. The recent reforms reflect the organizational maturity of the CDFI Fund and the CDFI industry so that a better, more targeted effort is now possible, focusing on opportunities where real needs can be addressed through sustainable economic development.

The proposed fiscal year 2004 budget includes increased funding for administrative expenses to \$13 million to support staffing requirements of the NMTC Program and technology requirements to enhance our support for E-grants and E-government. The E-grant and E-government activities support a "green rating" received from The Department of the Treasury on the Presidential Management Agenda Scorecard.

## MANAGEMENT AND OPERATIONS

*Internal Financial and Management Controls.*—The CDFI Fund has implemented effective financial and management controls, as verified by its independent auditors (KPMG, LLP). These controls have allowed the CDFI Fund to receive an unqualified (clean) audit opinion. Additionally, this marks the fifth consecutive year that the independent auditors have identified no material weaknesses or reportable conditions. KPMG's opinion affirms that the CDFI Fund's Statements of Financial Position, Operations, and Changes in Net Position and Cash Flow are fairly presented. These findings reflect the commitment of the CDFI Fund to sustain and improve its internal controls, operating policy and procedures, and awards management.

The CDFI Fund continues to comply with the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA). The CDFI Fund's internal management systems, accounting and administrative controls are operating effectively.

*Administrative Processes.*—During my tenure as Director, I have spent a significant amount of time reviewing the CDFI Fund's internal operations. We have made successful changes that have streamlined our awards process. In fiscal year 2002, we successfully reduced the amount of time required for our award processes. In a September 2002 Treasury Office of Inspector General audit report titled "CDFI Fund Post-Award Administration Process," the OIG concluded "that the CDFI Fund's post-award administration process is effective in ensuring that CDFI award recipients are carrying out their activities in accordance with their assistance agreements." The report further states, "[T]he Fund has taken steps to reduce the length of time that it takes to disburse funds. These steps include Program and Compliance staff performing a compliance and matching funds analysis, implementation of the Reports Monitoring Database, and revising how it processes assistance agreements."

*Integration of New Programs.*—We successfully integrated the NMTC Program within our existing operations without increasing the number of new employees above fiscal year 2001 levels. One of the most significant E-government initiatives undertaken by the CDFI Fund in fiscal year 2002–03 was the implementation of electronic applications for the NMTC Program, facilitating ease of the application scoring process and metrics for various management reports by having captured data readily available for analysis and reporting. This was an overwhelming success and the CDFI Fund is moving forward to introduce electronic applications for each of its financial assistance programs in fiscal year 2003.

*Compliance and Portfolio Monitoring.*—In fiscal year 2004 and beyond, we will continue to enhance the CDFI Fund's research capacity, implementing market and portfolio analyses to measure the availability of financial services in underserved markets and to critique the financial and program performance of existing CDFIs. The CDFI Fund has an investment portfolio of over 600 awards, totaling over \$500 million currently under compliance review.

*Measuring Investment Impact.*—The CDFI Fund places a high priority on measuring impact and is in the forefront of improving performance reporting within the CDFI industry. The CDFI Fund is building on its experience with the CDFI Data Project, an initiative undertaken by the CDFI Fund and CDFI industry representatives, to develop a more sophisticated data collection system for CDFIs and CDEs that will allow for the collection of transaction-level data to provide the specific location and characteristics of each loan in a CDFI/CDE's portfolio, thus allowing the CDFI Fund to measure impact at the census tract level. The CDFI Fund plans to use this data to compare CDFI/CDEs' lending behavior and community development impact to that of traditional financial institutions and thus demonstrate that CDFI/CDEs lend in areas where traditional banks have less of a presence.

You will notice a significant difference in the format of the fiscal year 2004 budget submission. In the past, the CDFI Fund reported nearly 20 measures, mostly measuring activity outputs. The introduction of our fiscal year 2004 budget complies with the President's mandate for integrated budget performance measures. The CDFI Fund received a "green rating" from the Department of the Treasury in its latest scorecard reporting for this Presidential Management Agenda initiative.

The stated objectives of the CDFI Fund have been simplified to three key statements: (i) increase financing to businesses (including non-profit businesses) and individuals that have low wealth, have limited collateral, are located in underserved communities, or have other characteristics that inhibit them from obtaining financing from traditional financial sources, but who present good opportunities for assistance promoting sustainable economic development in the community; (ii) expand the supply and quality of housing units in underserved communities and increase homeownership in these markets by increasing the availability of housing financing that leverages conforming mortgages or non-traditional sources of housing finance; and (iii) expand access to affordable financial services for the "unbanked," low-income people and others in underserved communities.

New baseline performance measures have been established and set into motion this year, through the CDFI Fund's fiscal year 2003 programs, and include better tools for tracking investment results and the use of the CDFI Fund's awards. We will continue the process of improving the CDFI Fund's programs by evaluating for measurable results, targeting resources through sustainable financial institutions, with an emphasis on supporting financial services that impact our Nation's most distressed areas.

*Interagency Cooperation.*—The CDFI Fund has worked very closely with the Internal Revenue Service to develop the guidance and regulations necessary to implement the NMTC Program; engaged in extensive discussions with the Small Business Administration on how to best match the NMTC Program requirements with the SBA's New Markets Venture Capital Program; and conducted numerous meetings with the General Accounting Office to determine appropriate compliance and performance measurement requirements for NMTC Program allocatees.

*Investment Underwriting.*—The CDFI Fund will use the new data collection system to implement PLUM, a new CDFI performance rating system. PLUM stands for Performance/community development impact; Liquidity and overall financial condition; Underwriting/portfolio quality; and Management capacity. Based on these four broad components, the CDFI Fund will use PLUM to rate each certified CDFI's financial strength and level of community development impact. The CDFI Fund's plan is to use this rating system to better manage its investment portfolio by creating a compliance "watch list" of under-performing entities, and to identify and promote best practices in the industry. Eventually, we plan to incorporate PLUM in the Fund's award underwriting process.

*E-Gov Enhancements.*—The CDFI Fund will soon announce a new electronic web-based customer relationship tool called “myCDFI.” This new tool will assist interested parties with a variety of services from a single location. The initial services to be offered through myCDFI include: access to all program electronic applications; access to historical electronic applications (read-only mode); self service address and organizational information updates; ability to create and maintain additional user accounts with various access levels; ability to access target service area information created while using the CDFI Fund Help Desk (including Hot Zones); and access to a message box for communication with CDFI Fund staff. Additional features will be added in the near future, including the ability to submit electronically reports required by the CDFI Fund per award agreement terms.

#### CDFI FUND PROGRAMS OVERVIEW

The strategic goal of the CDFI Fund is to improve the conditions of economically distressed communities by enhancing greater access to capital and other financial services through CDFIs (which generally are small business and housing loan funds, as well as regulated, community-oriented depository institutions), CDEs (which include for-profit and nonprofit corporations and partnerships), and insured depository institutions (banks, thrifts and credit unions).

The approach for investing in CDFIs includes three major strategies: (1) focusing CDFI Program awards on the Nation’s most economically distressed areas; (2) establishing a “growth continuum” strategy in award decisions, through which awards are provided to support CDFIs to the point where they can be self-sustaining, thus permitting the CDFI Fund to provide assistance to CDFIs with unmet capital needs in other distressed communities; and (3) taking actions to obtain the information necessary to measure and report on the impact of the CDFI Fund’s programs.

*Targeting CDFI Fund Resources.*—The authorizing statute allows the CDFI Fund to provide incentives for the purposes of facilitating increased lending and provision of financial and other services in economically distressed communities. The economic distress definitions vary among the CDFI Fund’s programs.

The CDFI Fund views its partnership with CDFIs, CDEs, and insured depository institutions as a catalyst for vigorous community and economic development financing activity. In fiscal year 2003, the CDFI Fund introduced “Hot Zones” to the CDFI Program to help prioritize and direct the CDFI Fund’s limited investments. By managing CDFI Fund resources to entities that serve Hot Zones, our dollars will be prioritized for investments into areas with the greatest needs and among CDFIs that can produce strong measurable impact.

#### TARGETING RESOURCES GEOGRAPHICALLY

	National Total	CDFI Program		BEA Program Eligible Distressed Communities	NMTC Program Eligible Low-Income Communities
		Eligible Investment Areas	Hot Zones		
Total Metro Census Tracts .....	52,241	20,093	10,851	1,670	19,732
Percent of National Metro Tracts ....	100	38	21	3	38
Non-Metro Census Tracts .....	14,063	4,966	( <sup>1</sup> )	656	6,605
Percent of Non-Metro .....	100	35	( <sup>1</sup> )	5	47
Total Tracts .....	66,304	25,059	( <sup>1</sup> )	2,326	26,337
Percent of National .....	100	38	( <sup>1</sup> )	4	40
Non-Metro Counties .....	2,319	743	285	( <sup>1</sup> )	( <sup>1</sup> )
Percent of National .....	100	32	12	( <sup>1</sup> )	( <sup>1</sup> )

<sup>1</sup> Not Applicable.

Sources: 2000 Census data, U.S. Dept. of Housing and Urban Development 2002 Difficult Development Areas.

Figures do not include outlying territories other than Puerto Rico.

Hot Zones are a subset of CDFI Program Investment Areas designated by the CDFI Fund as having greater economic distress and community development needs. They are the “most distressed” of the Nation’s distressed markets. Hot Zones have been identified based on census data and include, among other factors, areas with a poverty rate of at least 20 percent, income levels at or below 80 percent of the area median income, unemployment rates that are at least 1.5 times the national average, and housing costs that exceed 30 percent of the gross monthly income of a low-income household.

States that have the highest percentage of non-metropolitan Hot Zones—such as Mississippi, Kentucky, Montana, and Arizona—also have significant non-metropolitan persistent poverty populations (see Figures 1 and 2, below).



Figure 1.

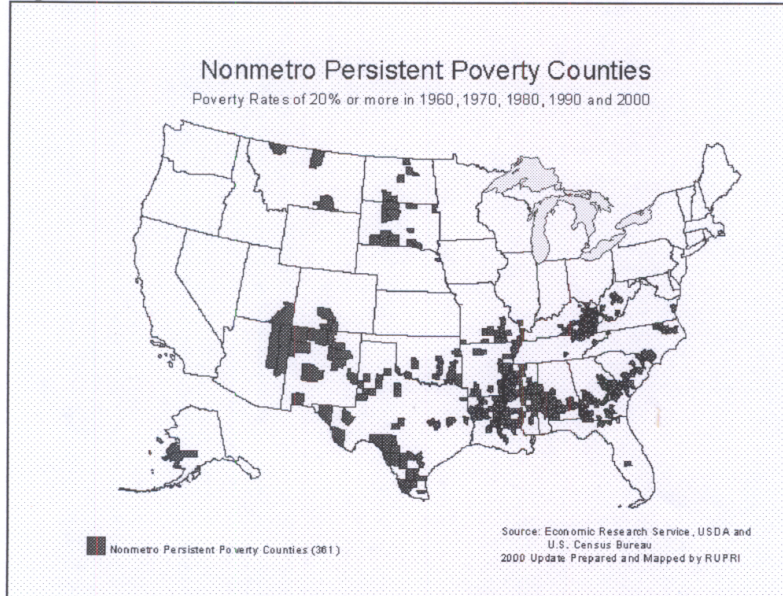
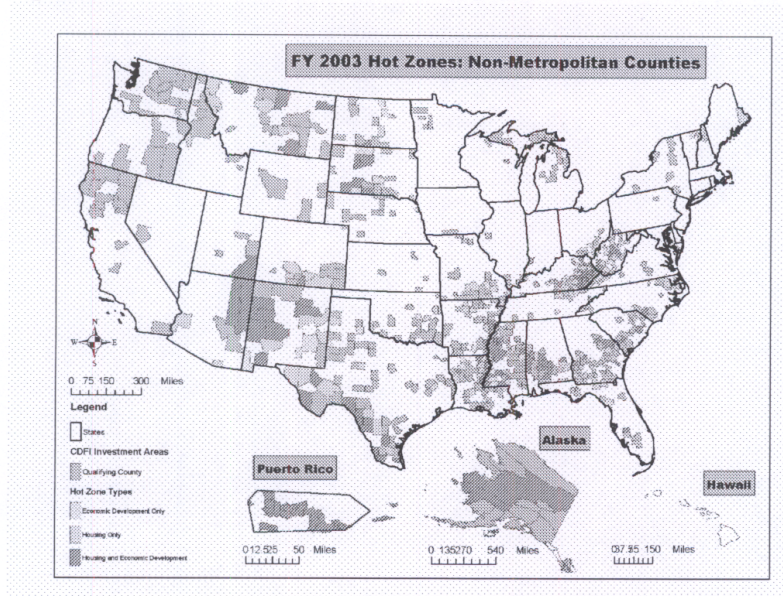


Figure 2.





In the fiscal year 2003 round of the Financial Assistance Component of the CDFI Program, the CDFI Fund will target its resources to CDFIs that will use the award proceeds to serve Hot Zones and/or achieve the programmatic priorities of increased homeownership opportunities that are affordable to low-income households and homeownership opportunities for other targeted populations lacking access to loans, investments and financial services.

In its evaluation of applications, the CDFI Fund will give the most points to those applicants that show that at least 75 percent of their activities will be directed toward Hot Zones. Applicants that are not principally serving Hot Zones may be scored to receive the most evaluation points if they demonstrate an effective track record and plan for promoting homeownership opportunities among low-income, very-low income and other targeted populations.

Eligible geographic areas under the BEA Program are called Distressed Communities and include communities that meet certain criteria of economic distress, including Indian Reservations. Specifically, a Distressed Community must have (1) a poverty rate of at least 30 percent, provided no individual census tracts has a poverty rate of less than 20 percent (according to the most recent census); and (2) an unemployment rate that is at least 1.5 times the national average (according to the most recent Bureau of Labor Statistics data).<sup>1</sup>

The NMTC Program requires that substantially all of the investments made by a CDE using NMTC-related investment proceeds be invested in low-income communities, geographic areas meeting certain economic distress criteria. Investments must be made in census tracts where the area median income is 80 percent or less than the statewide area median income (or, in the case of metropolitan areas, metropolitan area median family income, if greater), or where the poverty rate is 20 percent or greater. Applicants to the first round of the NMTC Program were reviewed on a competitive basis. Applicants that indicated that they intend to target their activities to communities with higher levels of economic distress than required by statute generally scored more favorably.

*Certified CDFIs and CDEs.*—CDFIs are building a financial services network that is focused on our most economically deprived communities and citizenry. CDFI Fund estimates show that certified CDFIs' Target Markets cover 100 percent of non-metropolitan Hot Zones and 77 percent of metropolitan Hot Zones.<sup>2</sup> There is at least one CDFI headquartered in each State, the District of Columbia, Puerto Rico and the U.S. Virgin Islands.

CDFIs are specialized financial institutions that operate in markets, increasingly in partnership with traditional lenders. The organizations we support are often able to lend in ways that are more flexible or not available to traditionally regulated financial institutions. As of February 1, 2003, we have certified 633 financial institutions as CDFIs:

CERTIFIED CDFIs

	Fiscal Year 2002 (As of 2/1/02)	Fiscal Year 2003 (As of Date 2/1/03)	Fiscal Year 2004 (Projected)
Total CDFIs .....	513 .....	633 .....	706.
Banks, Thrifts, Holding Cos. ....	58 (11 percent) .....	72 (11 percent) .....	85 (12 percent).
Credit Unions .....	94 (18 percent) .....	117 (18 percent) .....	120 (17 percent).
Loan Funds .....	344 (67 percent) .....	424 (67 percent) .....	475 (67 percent).
Venture Funds .....	17 (3 percent) .....	20 (4 percent) .....	26 (4 percent).

Through the NMTC Program, the CDFI Fund designates entities as community development entities (CDEs). To qualify for CDE designation by the CDFI Fund, an entity must be a domestic corporation or partnership that: (1) has the primary mission of serving, or providing investment capital for low-income communities or low-income persons; and (2) maintains accountability to residents of low-income communities through representation on a governing or an advisory board. Entities may apply to become CDEs even if they do not plan to seek a NMTC allocation. Such

<sup>1</sup> Census tracts meeting these distress criteria are some of the most distressed in the Nation. Using 2000 Census and BLS data, there are some 2,326 census tracts that qualify for the BEA Program. These tracts represent 4 percent of all U.S. census tracts and less than 12 percent of the 20,433 tracts that are considered "Low and Moderate Income."

<sup>2</sup> Please note that CDFI Target Markets were originally geocoded using 1990 Census tracts and county boundaries and that CDFI Target Markets are subject to change due to post-award amendments. Consequently, the total estimates are subject to adjustment, due both to changes in tract and county boundaries between the 1990 and 2000 Census (which the CDFI Fund's Hot Zones are based on) and to amendments to individual CDFI Target Markets.

entities presumably have a strategy of selling loans to a CDE with an allocation, or seeking an investment or loan from a CDE with an allocation. As of February 11, 2003, the CDFI Fund has certified 821 organizations as CDEs.

#### CERTIFIED CDEs

	Fiscal Year 2003 (As of 2/11/03)	Fiscal Year 2004 (Projected)
Total CDEs .....	821 .....	1,200.
CDFIs .....	335 (41 percent) .....	400 (33 percent).
SBA Designated SSBICs .....	9 (1 percent) .....	15 (1 percent).
Other Entities .....	477 (58 percent) .....	785 (66 percent).

*New Markets Tax Credit (NMTC) Program Overview.*—The intent of the Community Renewal Tax Relief Act of 2000 is to attract private sector investment in businesses located in low-income communities. Through the NMTC Program, taxpayers will be provided a credit against Federal income taxes for qualified equity investments made to acquire stock or other equity interests in designated CDEs. In turn, substantially all of the proceeds of qualified equity investments must be used by the CDE to make qualified investments in low-income communities. These qualified low-income community investments include loans to or equity investments in, businesses or CDEs operating in low-income communities.

The NMTC Program creates a capitalization mechanism that many of the larger, more established CDFIs could advantage. In addition, other non-CDFIs may participate as well—thereby widening the pool of entities and capital sources involved in building the economies of our low-income communities. In this regard, the NMTC Program helps to supplement the CDFI Program; however, the NMTC Program is limited to areas that qualify as low-income communities and, to attract investors, the underlying business activity of the CDE must be able to deliver a return on investor's capital at risk. Those CDFI activities that are outside of the NMTC Program's eligible low-income communities and are of such risk that investment motivated capital is inappropriate will not be able to generally benefit from the NMTC Program.

By offering a tax credit, the NMTC Program encourages private investment in low-income communities. If investors embrace the program, it will be a significant source of new capital that could help to stimulate new industries and entrepreneurs, diversify the local economy, and generate new jobs in low-income communities.

The tax credit provided to the investor will cover a 7-year period. In each of the first 3 years, the investor will receive a credit totaling 5 percent of the total value of the stock or equity interest at the time of purchase. For the final 4 years, the value of the credit is 6 percent annually.

The \$15 billion of equity investments for which tax credits can be claimed through the NMTC Program may be allocated between 2001–2007. Because the CDFI Fund was launching the program in 2001, the first 2 years' allocations were combined, and \$2.5 billion was available for allocation in the just completed first round.

In fiscal year 2003, the CDFI Fund evaluated 345 applications to the NMTC Program; these applications together requested the authority to issue \$25.8 billion in equity for which NMTCs may be claimed.

On March 14, 2003, the Treasury Department, through the CDFI Fund, announced the allocation of NMTC authority to certain community development entities (CDEs), thus supporting \$2.5 billion in private sector equity investments that will result in economic stimulus in low-income communities throughout the country.

The allocatees represent a broad cross section of community development entities. There are both large and small CDEs, affiliates of nonprofits as well as for-profit entities, CDEs that will focus locally as well as nationally, and CDEs that will focus on both rural and urban locations. The majority of allocatees will focus on business investments and loans and real estate investments and loans, with a lesser number making investments in other CDEs or purchasing loans from CDEs.

The allocatees in the first round of the NMTC Program show a broad geographical mix and focus for investment activity:

- Twenty-nine (43 percent) of the allocatees report a local focus within 15 States and will be allocated the authority to issue an aggregate of \$732 million in equity for which NMTCs may be claimed.
- Twelve (18 percent) of the allocatees will focus investment activities within an entire State. These CDEs will be allocated the authority to issue an aggregate of \$311 million in equity for which NMTCs may be claimed.

- Twenty-five allocatees (39 percent) will invest nationally or target multiple States. These CDEs will be allocated the authority to issue an aggregate of \$1.5 billion in equity for which NMTCs may be claimed.
- The allocatees in the calendar year 2002 round anticipate investing \$1.7 billion in urban areas, over \$508 million in rural communities, and \$231 million in suburban areas.
- The primary service areas of the 2002 allocatees (and the national market allocatees who were required to list seven States they intend to serve) will encompass 40 States and the District of Columbia. There are only ten States and all U.S. territories not served primarily by the inaugural round of the 2002 NMTCs (Iowa, Idaho, Kansas, Montana, North Dakota, Nebraska, New Mexico, Rhode Island, South Dakota and Wyoming).

To achieve the administration's goals of demonstrably improving the life of residents in impacted low-income communities, Treasury attempted to set a high bar for applicants and strove to make the selections based on a rigorous merit-based selection process. This review was conducted in the following manner:

#### *Step One*

- All policy decisions regarding the selection process were made by officials separate and apart from those who reviewed and rated applications. No identifying information for any application was provided to policy officials until after the selection process was concluded.
- In scoring each application, the reviewers rated each of four evaluation sections: Business Strategy, Capitalization Strategy, Management Capacity and Community Impact, awarding up to 25 points per section. In addition, reviewers rated applicants with respect to two statutory priorities: (i) up to five points for a track record of serving disadvantaged businesses or communities, and (ii) five points for committing to invest substantially all of the proceeds from its qualified equity investments in unrelated entities.
- For consistency, the process required three reviewers to independently review and evaluate each application. The reviewers included CDFI Fund staff, other Federal agency staff working in other community development finance programs, and independent private sector members of the community development finance community.
- In addition to evaluating and scoring each application, reviewers recommended an allocation amount that was supported by the information in the application.

#### *Step Two*

- Advancing applications were deemed to be those with an aggregate base score (without including priority points) that was in the "good" range based on a scoring scale of weak, limited, average, good and excellent. In addition, each advancing application had to achieve an aggregate base score in the "good" range in each of the four application evaluation criteria.
- For each application, panelists reviewed the scores, comments and recommended allocation amounts provided by each of the first phase reviewers. A statistical review was conducted to identify anomalous scores. In cases where there was an anomalous first phase reviewer score, the comments and recommendations of a fourth independent reviewer were used to determine whether the anomalous score should be replaced.
- The review panel also reviewed a variety of compliance, eligibility, due diligence and regulatory matters. Included in this review were (i) checks to determine whether any applicants that have been awarded funds through other Fund programs were compliant with the award requirements, (ii) verification that the applicants' investor letters were consistent with the capitalization information provided in their applications, and (iii) consultation with the IRS regarding whether proposed business strategies of applicants comply with the NMTC Program regulations.

#### *Step Three*

- After the second stage of the review process, the rank order list of applicants and the recommended allocation amounts were forwarded to the Selecting Official (the NMTC Program Manager). The Selecting Official reviewed the rank order list and the recommendations, and decided whether to accept or modify the panel's recommendations. In the event the Selecting Official's decision varied from the panel's recommendation by more than a prescribed amount, then concurrence is required by the Reviewing Official (Deputy Director). This process ensures that adequate documentation and oversight is maintained to protect the integrity of the allocation decisions.

—Per the Fund’s allocation application evaluation policies and procedures, the Selecting Official’s (and, as the case may be, the Reviewing Official’s) allocation decisions are final.

The CDFI Fund’s objectives for 2003 and 2004 are to evaluate the first round of the NMTC Program, make changes as necessary to enhance the program, publish the NMTC allocation application for the next round of allocations, and complete the awards allocation process for a combined 2003/2004 allocation round of up to \$3.5 billion in NMTC allocation authority. The CDFI Fund will review applications from CDEs under a competitive review process, with the goal of finalizing award decisions in early 2004. In this manner, investors making equity investments into eligible CDEs will be able to claim tax credits early in calendar year 2004.

The CDFI Fund is developing, with the Internal Revenue Service, a compliance system for the NMTC Program to ensure that each entity that receives a NMTC allocation will continue to fulfill its CDE certification requirements and the terms of its allocation agreements with the CDFI Fund, and that the IRS has appropriate information to determine that allocatees are operating within the legislation and regulations promulgated by the IRS. The compliance system will be based in part on input provided at a meeting co-sponsored by the CDFI Fund and the General Accounting Office in March of 2002. At that meeting, academics and other community development financing experts discussed the advantages and disadvantages to various approaches to both compliance issues as well as approaches to evaluating the impact of the investments made under the NMTC Program on low-income communities.

*CDFI Program Overview.*—Through the CDFI Program, the CDFI Fund promotes access to capital and local economic growth in distressed communities by directly investing in and supporting CDFIs. The CDFI Program provides financial assistance in the form of grants, loans, equity investments or deposits to CDFIs. Since its inception, the CDFI Fund has made over 900 CDFI Program awards, totaling \$405 million.

For fiscal year 2003, the CDFI Fund has refocused the CDFI Program to meet more effectively the Fund’s objectives in three key ways: promoting a “continuum of growth” that encourages the largest and most established CDFIs to leverage non-governmental sources of capital; giving highest priority on investments that serve the most distressed geographic areas; and giving priority to initiatives that promote homeownership among low-income and other underserved populations.

*The Financial Assistance Component.*—Replaces the Core, Intermediary, and part of the Small and Emerging CDFI Assistance Components offered in past years. The Financial Assistance Component consolidates the CDFI Program’s components that provide financial assistance (requiring matching funds) into one competitive funding round. The following table depicts asset-size of CDFI Program awardees and illustrates the continuum of growth strategies:

	All CDFI Program Applicants 2000–2002	Financial Assistance Awards (Formerly Core & SECA)			Technical Assistance Awards		
		2002	2003 (Projected)	2004 (Budget)	2002	2003 (Projected)	2004 (Budget)
Total CDFIs/Awardees .....	842	91	40	30	61	40	30
Asset-Size CDFIs/Awardees: <sup>1</sup>							
≤\$5 million .....	71	65	63	60	82	85	85
>\$5–≤\$25 million .....	19	18	27	30	14	15	15
>\$25–≤\$50 million .....	6	14	8	9	0	0	0
>\$50–≤\$500 million .....	4	3	2	1	4	0	0
>\$500 million .....	0	0	0	0	0	0	0

<sup>1</sup> Amounts in percent.

The CDFI Fund recognizes that there are two broad categories of CDFIs: larger CDFIs that have greater ability to leverage private-sector resources, have greater self-sufficiency and generate higher volume of activity and corresponding community development impact, and smaller CDFIs that serve smaller, more underserved markets, are less efficient and produce lower volumes of activity, but serve critical market needs.

*The Technical Assistance/Native American Technical Assistance (TA/NATA) Component.*—Allows applicants to apply for limited technical assistance funds on a rolling first-in, first-reviewed basis. This program replaces the Small and Emerging CDFI Assistance (SECA) Component and part of the Native American CDFI Technical Assistance (NACTA) Program offered in fiscal year 2002. The main purpose of the new TA/NATA Component is to allow new and growing CDFIs to access need-

ed technical assistance when they need it, in order to help them enhance their capacity to serve their target markets.

Entities applying to this program are on the beginning end of the “growth continuum,” either as start-up or small entities. The purpose of the technical assistance provided (including staff training, technology, and outside expertise), is to push entities more quickly and effectively up the growth continuum than they would without the technical assistance. Some typical uses of TA grants include: computer system upgrades and software acquisition; developing loan underwriting policies and procedures; evaluating current loan products and developing new ones; and training staff.

*Native American Strategic Plan; the NACD Program; the Native American CDFI Training Program.*—The CDFI Fund is preparing a Native American Strategic Plan. It will address the issues of CDFI reach and service to Native American, Alaska Native and Native Hawaiian communities; increasing capacity within these communities to respond to credit, investment and financial services needs; and attracting other existing resources to these underserved communities.

The CDFI Fund is making great strides in its efforts to increase the capacity of CDFIs to respond to credit, investment and financial services needs within Native American, Alaska Native and Native Hawaiian communities.

In fiscal year 2002, the CDFI Fund made its first set of awards under the NACTA Program. A total of 38 organizations were selected to receive a total of \$2.7 million in technical assistance grants. Eleven awards were made to CDFIs or entities planning to become CDFIs, and 27 awards were made to entities, such as Tribes and Tribal housing authorities, proposing to create separate CDFIs. NACTA-funded organizations are based in 18 States. The successful outcome of the launch of the NACTA Program has greatly increased the CDFI Fund’s reach in support of Native American, Alaska Native, and Native Hawaiian communities, and is building an emerging network of CDFIs focused on these communities. The CDFI Fund also has presented information on its programs to existing CDFIs and those interested in starting CDFIs at several premier Native American, Alaska Native, or Native Hawaiian conferences. Senior staff also has met with Federal agencies and other key organizations to explore partnership possibilities.

Already in fiscal year 2003, the CDFI Fund:

- Modified the fiscal year 2002 NACTA Program by separating it into two parts: (i) the NATA Component (of the CDFI Program’s Technical Assistance Component) and (ii) the NACD Program. Entities such as Tribes or non-profit organizations serving Native American, Alaska Native, and Native Hawaiian communities that want to create CDFIs can apply for technical assistance funds to develop plans to create CDFIs over a 3-year period. Applications for both programs are currently available. The CDFI Fund anticipates making funding decisions by the end of July 2003; and
- Awarded a contract to the National Community Capital Association and its subcontractor, First Nations Oweesta Corporation, to provide technical support services to design, develop, conduct, and administer an action-oriented training curriculum to facilitate the development of CDFIs for the purpose of providing access to debt or equity capital in Native American, Alaska Native, or Native Hawaiian communities.

Through the end of fiscal year 2003, the Fund will solicit contractors to:

- Conduct financial literacy training in Native American, Alaska Native, or Native Hawaiian communities through out the country; and
- Provide direct, on-site technical assistance to Tribes or non-profit organizations serving Native American, Alaska Native, and Native Hawaiian communities. Such technical assistance would include help in creating or strengthening a CDFI or addressing specific barriers to small business or home financing (including those identified in the CDFI Fund’s 2002 Native American Lending Study), on reservations.

In fiscal year 2004, the CDFI Fund will:

- Using fiscal year 2003 appropriated dollars, the CDFI Fund will implement a program targeted to Native American, Alaska Native, and Native Hawaiian organizations that will provide financial assistance for use as loans or investment capital. Recognizing that not all Tribes will have the capacity to create a CDFI, eligibility for this program would include partnerships between Native American, Alaska Native, or Native Hawaiian organizations partnered with traditional depository institutions as well as Native-focused CDFIs.
- Design a demonstration program to support the development of partnerships, innovative products, and delivery mechanisms to meet the financing needs of Native American, Alaska Native, and Native Hawaiian communities. The CDFI Fund will work with other Federal agencies to develop and implement this pilot to enhance rather than duplicate their activities.

*Training Program.*—The Training Program is aimed at supporting the CDFI Fund's strategic goal of strengthening the organizational capacity and expertise of CDFIs and other Financial Service Organizations. The Training Program, which was started in fiscal year 1999, provides funds that support the development and delivery of training products to CDFIs and other entities engaged in community development finance. Training is addressed via classroom instruction, web-based distance learning, and other electronic formats. The CDFI Fund is particularly excited about providing the support to help build the electronic teaching capacity of the CDFI industry. Through distance learning, the cost of accessing training is reduced for the CDFIs (elimination of the time and cost of travel) and the ability of CDFIs that are either of limited resources or of remote locations to access training is enhanced.

By the end of calendar 2002, two of the training providers completed their efforts under the training contract with the CDFI Fund. The remaining two will continue to provide training through this fiscal year. Training provided in fiscal year 2003 is largely through distance learning technology.

*Bank Enterprise Award (BEA) Program Overview.*—The BEA Program is aimed at expanding financial service organizations' community development lending and investments through regulated institutions.

The BEA Program provides monetary incentives for banks and thrifts to expand investments in CDFIs and/or to increase lending, investment and service activities in distressed communities. BEA Program awards have varied in size from less than \$1,000 to almost \$3 million, depending upon the type and amount of assistance provided by the bank and the activities being funded through the bank's investments. In general, banks that provide equity investments to CDFIs are likely to receive the largest awards relative to the size of their investments.

The administration recently completed a comprehensive evaluation of the BEA Program to ensure that it is as effective and efficient as possible.

The CDFI Fund concluded that the BEA Program regulations should be revised to target awards to "personal wealth" and "community asset" building activities, and to those CDFIs with a greater need for the incentive provided by the award to facilitate their bank partnerships. Thus, the CDFI Fund initiated regulatory changes to the BEA Program to take effect with the fiscal year 2003 funding round.

The CDFI Fund is currently considering how to better distinguish the BEA Program from the mandates of the Community Reinvestment Act, and to ensure that awardees use BEA Program awards for community development activities.

The administration supports continuation of a reconstituted BEA Program. An effective BEA Program provides the Treasury Department with an effective strategy to engage traditional banks and thrifts in helping us achieve our goal of improving the economic conditions of underserved areas through insured depository institutions. The role that banks and thrifts play is critical to capital access. We need to encourage them to target these underserved communities in ways that do not impede safe and sound banking practices in a sustainable manner.

*Rural Community Assistance.*—The fiscal year 2002 appropriations for the CDFI Fund contained report language requesting an update on rural lending practices as part of the fiscal year 2003 budget submission. CDFI Program and BEA Program awardees are indeed reaching rural areas. In 2002, 60 percent of awardees receiving financial assistance, and 50 percent of technical assistance awardees, indicated that they served rural areas as all or part of their markets.

Of 156 surveyed awardee CDFIs, 20 (13 percent) estimated that 100 percent of their activities served rural areas and an additional 23 (15 percent) estimated that 51 to 99 percent of their activities served rural areas. Considering that 20 percent of U.S. households reside in non-metropolitan areas (Census 2000), the percentage of CDFI Fund awardees that target more than half their activities to rural areas (28 percent) compares favorably.

*Secondary Market Study.*—The CDFI Fund is conducting a study to explore the possibility of expanding the secondary market for CDFI loans. Selling loans on the secondary market while common among traditional lenders is not a general practice among CDFIs. In fact, very few CDFIs have engaged in loan sales to date. If CDFI loans can be made attractive to potential investors and investors are willing to pay a reasonable price, the CDFI industry will gain a major source of private sector capital that is likely to grow with the industry's needs and will limit the CDFIs need for additional capitalization.

The CDFI Fund's study will examine the current and future capital needs of CDFIs, and will make recommendations. The study will involve consultations with CDFIs, potential loan purchasers and others with an interest in the secondary market. A draft report is expected in the summer of 2003.

As you can see, the CDFI Fund has made substantial progress over the last year. The CDFI Fund's programs represent a continuum of capital, investment and incentive opportunities aimed at developing affordable housing, promoting homeownership, starting and expanding businesses, meeting unmet market needs, and stimulating economic growth in our Nation's low-income and distressed areas. In short, the goal of the CDFI Fund is to help bring mainstream capital to those people and communities that have been overlooked. The CDFI Fund has made significant strides in the integration of its performance measures in the budget process.

Again, I thank you for the opportunity to present my testimony in support of the President's fiscal year 2004 budget request and look forward to answering any questions you may have for me.

Senator BOND. Thank you very much, Mr. Brown.

You know, back when I was Governor I used to give two messages to the General Assembly. I would give the State of the State, and I would have all these great, lofty concepts. That was my first one, and everybody said, well, what do you really want to get done? I said, forget the State of the State message. Look at my budget message. That is coming a week later.

You find out what you want to do in government by where you put the money, and as I look at this it appears that the administration is saying that the New Markets is really going to replace CDFI, and the emphasis seems to be going away from CDFI with the cuts. Are you saying that New Markets can do the job that CDFI is doing? Are we seeing through the budget numbers a change in the administration's view with respect to CDFI versus New Markets?

Mr. BROWN. No, sir. We are saying that the New Markets Tax Credit program is an important complement to the CDFI Fund Program. It will allow us to attract billions of dollars into low-income communities through private sector funding. It is an important new program to the fund, and the administration supports the BEA Program as well as the traditional programs of the CDFI Fund.

As we shared when we submitted our budget to you in 2002, the concern of the administration regarding the CDFI Fund was not what community development financial institutions do, it was how the fund reported its impact, its performance measures related to its support of CDFIs.

The administration supported a baseline budget until we were able to work out the operational efficiencies for the CDFI Fund as well as to integrate our program regulations and reforms to meet the President's expectation for how we managed the taxpayers' money.

Senator BOND. It would seem to me that the skills for the New Market program might be different from the skills needed for the staff of the CDFI program. Are there different skills, and what kind of skills are needed, and what are the differences between staffing the two programs?

Mr. BROWN. Again, for the New Markets Tax Credit program, and the skill set that the fund has developed over the years of managing the CDFI Fund Program are essentially the same and complementary. The CDFI Fund staff did a marvelous job in introducing and administering the New Markets Tax Credit program. We were able to introduce this year's program with no addition to staff to the 2001 levels.

Many of the regulatory changes we made to our CDFI program allowed us to work through the programmatic efficiencies so that

we could effectively administer the New Markets Tax Credit program, so sir, I would share with you that we have a very talented staff, a committed staff, and one that is very capable of administering—

Senator BOND. So you are saying they are essentially doing the same things. Are you using the same measures of success? Will you be able to give us a comparison of how effective the two programs are in achieving their goals based on the amount of Federal resources available?

Mr. BROWN. Yes, sir.

Senator BOND. Will you have measurements that show that?

Mr. BROWN. The measurements are essentially the same, as I mentioned, loans and investments to businesses, loans and investments in real estate, and the measures that we have put forth for the CDFI Fund Program are essentially the same for the New Markets Tax Credit program.

Senator BOND. Okay. How do you think that the CDFI needs will be funded under this budget? Is there carryover funding? Have you got a problem with the lag, that previously appropriated funds are not being used? I am concerned that there is going to be a tremendous shortfall in the ability to fund the CDFI program. Can you justify the cuts?

Mr. BROWN. Yes, sir, I can. As I said, the enhancements that we have made to the CDFI Fund Program dealt with the whole continuum of financing activities. The fund in its years has done a wonderful job of building the program and obligating previous years' appropriations.

What the OIG noted in its post-award administration is that the disbursement of those dollars took nearly 30 months. Largely a reason for that, a big reason for that is that as we were building the program we obligated funds contingent upon the CDFI and the local market getting matched. We have made program changes because the statute does require that before we disburse, that the organization must match dollar for dollar, so many—so a number of the changes we have made will more efficiently allow us to operate and obligate and disburse our funding within the same year's appropriation and allow us to be better stewards of taxpayers' dollars.

The other significant change that you see in the budget does affect the BEA Program and, as I said in my opening remarks and the concern that was shared there was that as a result of the OMB's evaluation through their PART was a timing difference. They looked at the previous program and not the significant changes we made in the 2003 round, and the administration feels very strongly that the BEA Program that we are putting forth for 2003 focuses on community and personal wealth-building activities in a way that provides the right and proper incentives for financial institutions to be engaged in community development lending.

Senator BOND. Thank you, Mr. Brown. I will have more questions on BEA after Senator Mikulski.

Senator MIKULSKI. Well, Mr. Chairman, I just want to validate and echo your questions related to management and the utility of the program, so I am not going to repeat them. Just know Mr. Brown, that the chairman's questions are my questions.



I would like to go, though, to the issue of predatory lending, and this chairman has been a great friend and a wonderful ally in dealing with the scurrilous practice of predatory lending. What appears is that a lot of the predatory lending, the gouging of the poor, has occurred at the so-called subprimes. As I understand it, the CDFI has been a welcome and refreshing alternative for poor people who wanted to get that first rung on the American Dream, home ownership, without being gouged.

Could you tell me how many CDFIs that you fund for home ownership loans, and of that, what is your percentage that end up in default?

Mr. BROWN. Okay. Those are very good questions, and that represents many of the new performance measures that we have put in place for 2003. We do share your optimism and your enthusiasm for the role that CDFIs play in providing mortgage loans to low-income people and in low-income communities.

Many of our CDFIs provide credit repair loans. Several of our CDFIs provide loans that specifically refinance borrowers out of predatory credits. Self-Help Credit Union we consider to be one of the leading CDFIs in the Nation in providing alternatives to high-cost mortgage lending, and its founder led the charge in North Carolina to having caps on both rates and fees in subprime lending.

Senator MIKULSKI. But you have data in addition to anecdotal stories—

Mr. BROWN. We have retooled our application and coding process so that in coming years I will be able to specifically—

Senator MIKULSKI. But you cannot tell me that now?

Mr. BROWN. I cannot tell you that now.

Senator MIKULSKI. I appreciate that.

Mr. BROWN. Okay.

Senator MIKULSKI. But I appreciate your at least putting in the data and tracking and monitoring mechanisms for that, because we want to be able to show that it can be done. When there is such a high rate of default in subprime the poor are blamed, but sometimes the scurrilous hidden fees and balloon payments and all of that are of scurrilous subprimes.

Now, let us go to the issue of education on predatory lending. We know that one of the major agendas in the communities of color is about wealth, wealth-building, asset accumulation, et cetera, but often there, for a variety of reasons, has been not a lot of education, and they are therefore vulnerable to scam and scheme.

What does CDFI do in working with your local—I will call them affiliates, but your local institutions, to make sure that people know what they are getting into, or also know how to get out of what they are in without getting into it worse? You know, the whole thing about buy a blouse and lose a house through the home equity schemes and so on. What are you doing in the area of vigor in education?

Mr. BROWN. Senator, my response to that is really a very short one and a very important one. You cannot be certified by the fund as a CDFI without providing community development services. One of the unique elements of being a certified community development

financial institution is that you must provide to your borrowers development services.

That comes in the way of technical assistance, homebuyer counseling, et cetera, so depending on the unique product offering that a CDFI provides, it must provide—it must provide—development services, so CDFIs play a very important role. They are able to offer credit in a flexible and innovative way largely because they are committed to homebuyer education, technical assistance providers. They either do it directly, or they work with local universities and other third party providers to make sure that our borrowers are properly educated on the role and the responsibility of credit.

Senator MIKULSKI. You know, that is a really big job, and first of all I think it is very laudatory. It is exactly what we hoped would go on through CDFIs. This is why I am puzzled by the big cut that you have, because this is big, and what you are asking your local affiliates to do is very labor-intensive, and it is a lot of handholding and reviewing, and it should be. This is prevention for future financial problems, and it is like being immunized against being taken advantage of.

If I could, Mr. Chairman, let us go to this New Market Tax Credit. Again, I share the same concerns. Have you established a system for data collection on this, and how will you monitor the results of these tax credits?

Mr. BROWN. Yes. We will establish and have established some very extensive data collection, and just by way of background and to bring you current, last year we had a joint conference with GAO that talked about the performance measures for the New Markets Tax Credit program, and we are going to take a couple of approaches, that the primary purpose of the New Markets Tax Credit program is to see an increased flow of capital into low-income communities.

So one of the first performance measures that we think we will be able to report at least next year is how effectively were community development entities able to take the tax credits and use that to attract private capital investments into their community development entities.

The other measures, probably beginning in 2004 or 2005, will allow us to look at how the proceeds from those investments were used in a community, to what extent were jobs created, what types of services, commercial real estate services, were provided in low-income communities, things like charter schools, medical centers, loans to small businesses.

The New Markets Tax Credit program allows for a variety of activities. The only activity that is excluded under the New Markets Tax Credit program is rental housing and, as you know, we have a separate tax credit for that, the low-income tax credit.

Senator MIKULSKI. Well, thank you very much, Mr. Brown, and we look forward to working with you.

Thank you, Mr. Chairman.

Senator BOND. Thank you, Senator Mikulski.

I am going to go back to the BEA and the unfunded awards. In 2002, the Bank Enterprise Award Program received 35 funding applications totaling \$24 million from banks who had successfully

carried out \$167 million in increased lending and financial services activities in very distressed neighborhoods, yet the CDFI Fund only funded five applicants before it ran out of money. As a result, 30 banks that successfully completed nearly \$140 million in increased activities received nothing for their hard work and effort.

Now, one of these banks was the Central Bank of Kansas City, as I have mentioned, serving the needy areas in Kansas City. The BEA appears to be working as an incentive to get banks to do more in very low-income communities, and demand is higher than resources available, as last year's \$20.9 million funding fell short, so would you please explain to us why the administration proposes to cut this successful program until Congress makes statutory changes to it?

Mr. BROWN. Sir, as I said in my opening remarks, the changes that we made to the BEA Program, which were quite substantial, occurred after OMB did its evaluation of the BEA Program, and we concurred with OMB's evaluation that the previous administration of the BEA Program did not effectively allow us to target our awards for distressed community activities. The popularity of the BEA Program for—let me also give you a little bit more background.

The statutory requirements of the BEA Program requires that the first two priorities, or the primary priority, allow us to provide an incentive to financial institutions for its support and investments in other CDFIs. The third priority allowed us to provide an incentive to banks for increasing their lending in targeted low-income areas.

In the past year, we exhausted our budget as we provided incentive awards in response to the first two priorities in the statute. In looking at the program formula, in looking at the types of awards that banks were receiving under the first two programs, we felt that there needed to be substantial revisions.

The revisions we have made to the BEA Program now allow us to achieve more increased targeted funding. We have put caps on the amount of a BEA award to our largest CDFI partners. For instance, we had provided an award to a major financial institution that provided a \$10 million credit facility to one of our largest CDFIs. That credit facility was typically priced at prime, and that \$10 million credit facility required us to pay that bank a \$1 million BEA award.

When we looked at that, we felt that the program was successful, that we had grown that CDFI to a size and scale that that strategic partnership was in place, and that we did not necessarily need the BEA award to incent that type of activity, so the changes we have made allow us to target awards to CDFI partners that are small and emerging and allow us to target BEA awards not for all lending that a bank does, but for lending, for mortgage lending, small business lending, not automobile lending and credit card lending, which was part of the previous award.

The other problem we had is that when we looked at the network of regulated institutions that were receiving a BEA award, it was possible that a regulated institution could make a million dollar deposit or ten \$100,000 deposits in the network of other regulated CDFI banks and for that receive a \$330,000 BEA award. We felt

that was not the intent of the program, and so in the 2003 round we have prohibited that activity.

I share those with you to say that in fixing what we think is the proper incentive for providing support and investments into other CDFIs, that it now gives us greater budget latitude to provide a financial award to our network of CDFI banks who are committed to providing loans, mortgage loans, small business loans in low-income communities so that now, with the appropriate budget appropriation, we will have sufficient dollars to not leave meritorious applications on the table as a result of a lack of funding.

Senator BOND. The bottom line is, will the 30 banks that came up sucking wind last time be able to be funded?

Mr. BROWN. That will depend on the level of applications and the demand we get in the first two priorities.

Senator BOND. Native American technical assistance. We clearly saw a need for capital access and financial lending on Native American lands. The Treasury Department's 2001 study recommends creating more financial institutions, including CDFIs, on Indian lands and opening branches there. One of the greatest needs, of course, is access to credit and capital and, as you know, we included some \$5 million for financial and technical assistance for Native Americans in 2003, whereas the fiscal year 2004 budget calls for \$3 million. Why the reduction in funding?

Mr. BROWN. We see that as an integral part of our technical assistance program, in that we feel that if we are successful in the appropriations that you have given us in the 2002 and 2003 round of taking nearly \$10 million to help create and support the capacity of CDFIs in Native American communities, that we think that we will have positioned them to more effectively—to more effectively—compete for other financial assistance funding.

We are extremely committed to our Native American program. Our strategic plan offers a great deal of innovation. We have talked with members of the Fund's, other Government agencies that serve on the Fund's Community Development Advisory Board, and we feel that our Native American strategic plan will not only include the resources of the Fund but we will work in close partnership with HUD, USDA, and others to put forth what we think will be a very quality demonstration program to help overcome the perception that lending in reservations is risky, so we are quite excited about the potential of our Native American program.

Senator BOND. The New Markets Tax Credit program, as I said, covers 32 percent of the U.S. population. It is supposed to help economically distressed communities. What is to keep a community development entity from deciding a particular project in a very risky area was not as good an investment as one in an eligible but substantially less risky neighborhood, and what oversight and accountability protections does the Fund have to ensure that the CDE meets the requirements of the approved application?

Mr. BROWN. A very good question, Senator. Our allocation agreement is our enforcement tool that will hold a community development entity accountable to its application.

Our review of the application and the highly rigorous process that we establish in the application will help us to ensure that the allocatees that receive a new markets tax credit allocation are com-

mitted to providing business strategies that we consider to be unique, flexible, and innovative, and that the other sections of the application review process will look at the impact that the organization has committed to make, and the market areas that they are committed to serve, that those elements are key components and conditions in the allocation agreement.

So we are extremely committed to ensure that what the organization said in its application will be measured in its actual results and performance, and our allocation agreement is the tool that we will have to ensure enforcement.

#### ADDITIONAL COMMITTEE QUESTIONS

Senator BOND. Well, Mr. Brown, thank you. You may find it hard to believe, but I still have a number of questions that I will submit for the record, things about accountability, and one of the things that continues to come up is how we know the programs are effective, and again, I am very much concerned about making sure that needy rural areas are served, because I see the action going in the needy areas of our larger metropolitan areas, but there are a lot of the small, very small isolated rural communities with disadvantaged minority populations who just seem to be out there by themselves, so I will submit those questions for the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

#### QUESTION SUBMITTED BY SENATOR TOM HARKIN

*Question.* In the fiscal year 2002 appropriations, the committee urged CDFI to increase its activities in rural areas, especially in light of the abundance of Federal programs already dedicated to urban areas. I was pleased to see a number of awards made to rural entities since then. Unfortunately, it has come to my attention that a housing agency in Iowa was supposed to receive a grant and a zero-interest loan from CDFI but has been having considerable difficulty getting those funds released due to what I see as excessive administrative difficulties. A meeting occurred in my office on March 12 with your staff on this matter and still, little movement has occurred. I am told that this is not an isolated case for smaller entities trying to participate in CDFI programs.

What are you doing to assure that rural and smaller community entities that have been certified are receiving reasonable treatment that will allow the purposes of CDFI to be fulfilled?

*Answer.* The CDFI Fund's programs are equally accessible to organizations operating in both rural and urban settings. Community Development Financial Institutions Program and Bank Enterprise Award Program awardees are indeed reaching rural areas. In 2002, 60 percent of awardees receiving financial assistance and 50 percent of technical assistance awardees indicated that they served rural areas as all or part of their markets. On March 14, 2003, the Department of Treasury, through the CDFI Fund, announced the allocation of New Markets Tax Credit (NMTC) authority to 66 "community development entities", thus supporting \$2.5 billion in private sector equity investments that will result in economic stimulus in low-income communities throughout the country. More than 30 percent of the NMTC allocation recipients will target investments predominantly to rural communities.

The CDFI Fund had been working with Homeward, Inc. of Iowa to resolve a number of issues related to receiving its funding. At the March 2003 meeting with the Senator's office, Homeward, Inc. requested a "severe constraints waiver" to reduce its matching funds requirement. Because the CDFI Fund had never received such a request subsequent to an award decision, it is in the process of developing a policy regarding what information will be needed in order to evaluate such a request. The CDFI Fund will promulgate this policy as soon as it is finalized.

## QUESTIONS SUBMITTED BY SENATOR TIM JOHNSON

*Question.* What specific initiatives are being pursued at CDFI to enhance the Fund's effectiveness in Rural Areas?

*Answer.* The CDFI Fund has focused its outreach resources in fiscal year 2003 on those organizations that have small and rural entities as their memberships, including credit unions and microloan funds. The CDFI Fund is exploring a partnership with the Department of Agriculture so that we can better communicate information about the CDFI Fund's programs more broadly, using that agency's network of offices around the country. This will enable the CDFI Fund to reach a much larger audience. The CDFI Fund seeks similar partnerships with other agencies and with foundations serving rural communities, so that information about the CDFI Fund's programs can be better disseminated to rural communities.

Further, for fiscal year 2004, the CDFI Fund expects to modify its highly distressed market criteria called Hot Zones to increase the number of rural areas that can qualify. CDFIs serving Hot Zones are given highest priority for funding.

In addition, the CDFI Fund's Native American Lending Study (the "Lending Study") released in November 2001, noted that the often-rural nature of Indian Lands presented barriers to economic development and access to credit, capital, and affordable financial services. In response, the CDFI Fund is implementing a comprehensive Native American strategy that will: (1) increase the capacity of CDFIs to respond to credit, investment and financial services needs within often rural and remote Native American, Alaska Native, and Native Hawaiian communities; (2) attract other existing resources to these underserved communities; and (3) address market barriers to effective demand for credit, capital, and financial services.

*Question.* The CDFI Fund was established to provide flexible capital that strengthened CDFIs. By setting strategic goals that state that the Fund will achieve outcomes not related to assisting CDFIs, the Fund is seeking to diminish CDFIs to mere pass-through instruments for current Federal Government priorities. Specifically Congress intended the Fund to provide hard-to-raise equity capital that would allow CDFIs to leverage additional capital, reach deeper into communities and make capital available in areas not served by traditional lenders.

How does the CDFI Fund factor in data regarding out-migration and population loss when evaluating CDFI applications?

*Answer.* For Financial Assistance funding through the CDFI Program, the CDFI Fund considers five primary criteria (each of which have a number of sub-criteria). These are:

- Demonstrated need for capital for particular financial products;
- Market Need and Community Development Performance;
- Management and Underwriting Quality;
- Financial Health; and
- Financial Sustainability and Matching Funds.

Among these criteria, the Market Need and Community Development Performance criterion accounts for 40 percent of an applicant's total score. Thus, an applicant serving a highly distressed market that effectively describes the demand of that market for financial products and services and shows that it provides the services needed by that market, would receive the highest score.

The CDFI Fund's strategy of targeting Hot Zones—meaning, investment areas that are the most economically distressed based on several quantifiable measures—has been further refined by identifying particular types of Hot Zones. "Housing Hot Zones" are areas that have low median family incomes, high homeowner or rental cost burdens for low-income families, and high poverty, and are the areas that are the hardest hit by out-migration and population loss. In the fiscal year 2003 funding round, CDFIs serving Hot Zones, including these Housing Hot Zones, will be given funding priority for awards.

*Question.* What efforts have been undertaken to ensure that outcome-based measurements do not constrain CDFIs from pursuing their intended mission?

*Answer.* The CDFI Fund's outcome-based measures (jobs, affordable housing units, commercial real estate, and financial service provision) should not constrain CDFIs from pursuing their intended mission because the outcomes were designed to capture the vast majority of activities CDFIs engage in.

The CDFI Fund does not specify the types of activities that CDFIs must engage in; rather, the CDFI Fund's rigorous underwriting criteria place heavy emphasis on leverage, targeting, and market need, all of which are consistent with CDFIs' missions of reaching underserved markets and achieving long-term sustainability. CDFIs that score well must be able to leverage the CDFI Fund's award dollars, target the most economically distressed areas of the country (Hot Zones), and provide products and services that meet the needs of those not served by traditional lenders.

Finally, the CDFI Fund's strategic goal is to "improve the economic conditions of underserved communities by providing capital and technical assistance to community development financial institutions (CDFIs), capital to insured depository institutions, and tax credit allocations to community development entities (CDEs), which provide credit, capital, financial services, and development services to these markets [emphasis added]." One of the CDFI Fund's four objectives is to "Build the self-sufficiency and capacity of CDFI Fund awardees and certified CDFIs." The performance measures for this objective include dollars leveraged and number of CDFIs receiving technical assistance awards and CDFI Fund-sponsored training. These outcomes measure the institutional growth of CDFIs and directly relate to the statutory purpose of the CDFI Fund.

#### SUBCOMMITTEE RECESS

Senator BOND. Thank you for the testimony, and the subcommittee stands in recess.

Mr. BROWN. Thank you.

[Whereupon, at 11:55 a.m., Thursday, April 10, the subcommittee was recessed, to reconvene subject to the call of the Chair.]